★ MARKET FACING ADDITIONAL TESTS ★

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

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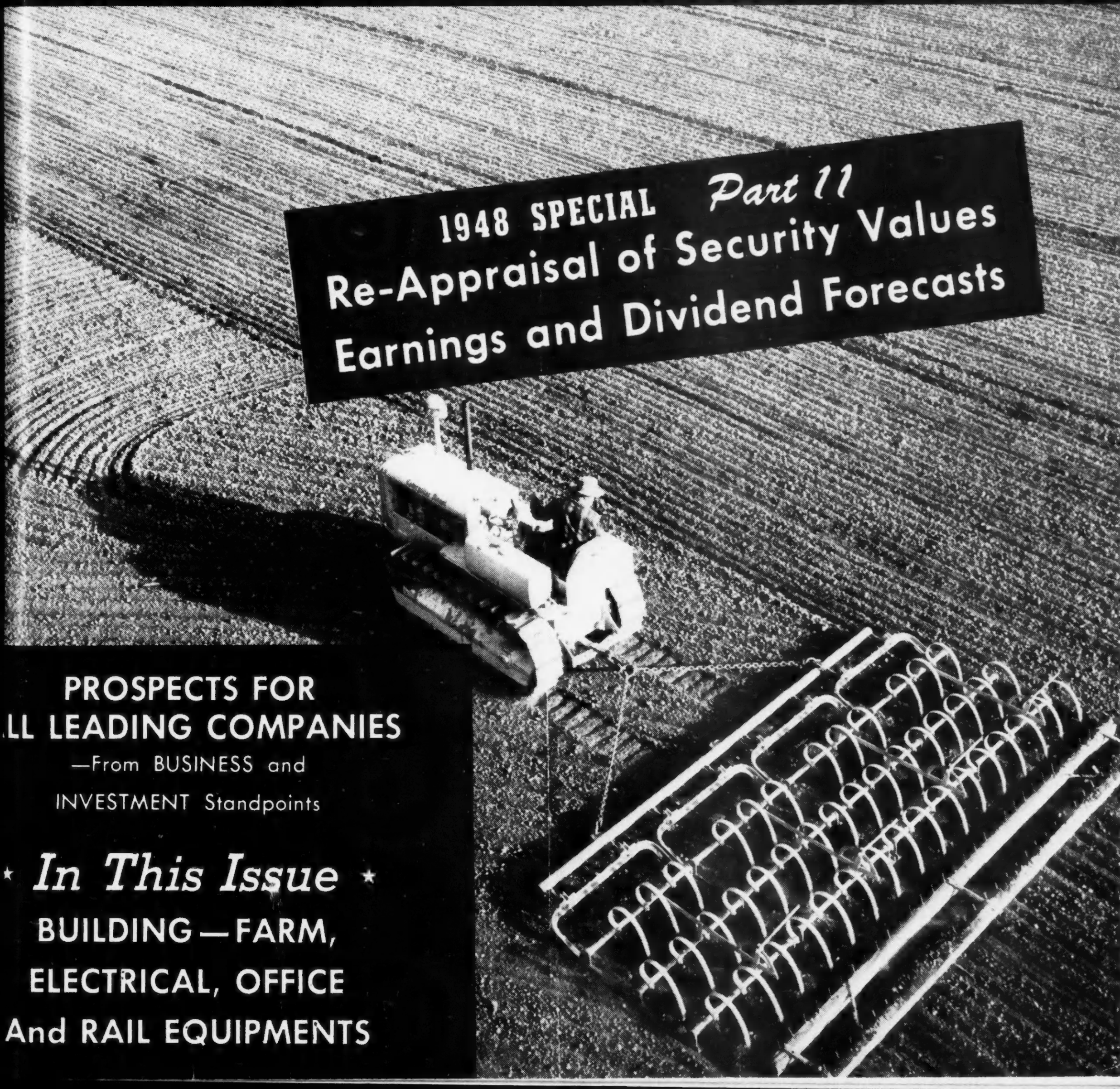

1948 SPECIAL Part II

Re-Appraisal of Security Values

Earnings and Dividend Forecasts

PROSPECTS FOR
ALL LEADING COMPANIES
—From BUSINESS and
INVESTMENT Standpoints

★ *In This Issue* ★

BUILDING — FARM,
ELECTRICAL, OFFICE
And RAIL EQUIPMENTS

THE MAGAZINE OF WALL STREET and BUSINESS ANALYST

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THE MAGAZINE OF WALL STREET

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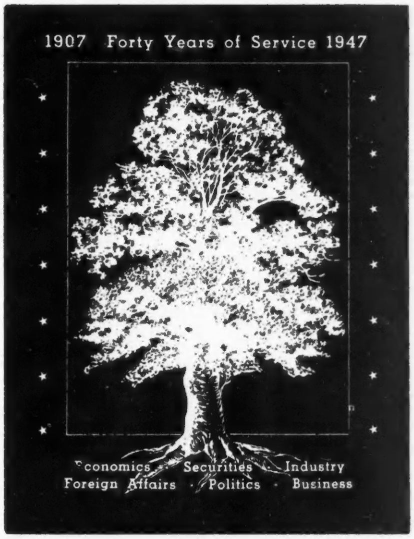


The Trend of Events

WHITHER PRICES? . . . The price puzzle, if anything, is getting more confusing, at least as far as the more immediate outlook is concerned. There is little doubt that a turning point in price inflation is at hand; but those who want to know whether the overall price structure—in the more immediate future—is headed up or down had better keep an eye on steel.

While food and cotton prices slumped, steel products have been quietly firming and finally steel producers accounting for the bulk of the nation's output formally boosted prices of semi-finished products by $5 to $7 a ton. Finished steel prices, for the time being, were left unchanged, thus the boost will hit primarily non-integrated steel firms which buy semi-finished products from the big integrated companies. And the smaller concerns say that they cannot take it, that they have to raise prices on finished products—the kind that manufacturers need to make consumer goods.

In the end of course, boosting semi-finished prices will make for higher prices all around, including the prices of manufactured articles containing steel in any form. Thus while the consumer may expect cheaper food, perhaps even cheaper cotton goods, he may have to pay more for his new automobile, for that new washing machine or refrigerator that he is intending to buy. Higher prices of durable goods, in short, are likely to offset at least part of the savings arising from the downtrend in food costs.

What's more, rising steel prices are bound to have an effect on steel wages; the latter in turn usually set the wage pattern for organized labor. Higher steel prices, on top of the price boosts that already occurred, will eagerly be seized upon by the steel unions to bolster their wage case which rests importantly on steel company earnings. A vicious circle appears to have been started that may nullify a good deal of the price correction under way elsewhere. It is unfortunate, to say the least, that it had to come at this particular moment when inflationary trends seemed to be getting under control.

ARE FARMERS HURT? . . . We read much these days about the impairment of agricultural purchasing power resulting from the slump in farm commodity prices, with the suggestion that the bloom is off the lucrative farm markets now that buying caution is likely to supersede the liberal spending that was a natural outgrowth of agricultural affluence. The big question is, of course, how much are farmers hurt and how much will they be hurt?

Undoubtedly, with farm prices shrinking, farm income will be less. But farmers have fared relatively better than the rest of the population in recent years. They collected some $30 billion from the sale of their ouput and from the Government last year alone, which was by far the largest farm income in history. It was 18% larger than the farm income of 1946 and three times that of 1939. As late as last January, the prices which farmers received for their products were more than three times those of 1914, whereas the prices they paid for the goods they bought had gone up not much more than two and one-half times. This meant that

the goods farmers produced brought them some 20% more of the goods they wanted than in the period before World War I. Also, whereas they received less than eight percent of the national income in 1939, they obtained more than 11% last year, and it was a greatly swollen national income. It is evident that farmers have done exceedingly well. What's more, they are likely to remain quite prosperous even at a moderately lower level of farm prices.

One reason for the latter assumption is that tax savings will offset a goodly part of the prospective income loss in a good many cases; this may constitute a substantial cushion. Another is that farmers have every incentive to produce large crops this year which, at reasonable prices, they will have no difficulty in marketing. Even should farm income drop 10% to 20% from the historic 1947 peak, it would still be larger than that of any previous year except the last two or three.

Also, even declining price trends are not without safeguards or offsetting elements. With Government price supports mandatory on this year's crops, the immediate effect of a price downtrend is bound to be less than would otherwise be the case. Government support at 90% of parity will see to that. And lastly, any extended drop in farm prices is bound eventually to result in lower prices of the things the farmer buys.

There are other elements of strength in agriculture's position, apart from indicated continuance of a relatively high level of farm income despite lower prices. Farmers have accumulated unprecedented liquid savings that will sustain their buying power. Farm debt is exceptionally low, somewhere around $5 billion, while after the last war it hit a high of $10¾ billion. Some money may be lost on high-priced land purchased, but it won't be anything like what happened in the Twenties. Overall, the Department of Agriculture estimates that the farmers' equities in their farms are worth twice as much as in 1939 as a result of higher land values, large investments in improvements and the reduction in mortgage debt of some 20%.

In short, the economic position of American agriculture should remain quite strong, even if farm prices should soon return to their prewar relationships to other commodity prices which they have outrun by a considerable margin. We concede, however, that operating costs may not go down proportionately in the nearer future. Here is where farmers will perhaps experience their greatest squeeze. If so, we cannot—as some do—visualize for instance an impending drop in farm equipment sales. Rather, the trend towards farm mechanization should accelerate to minimize the squeeze.

For a time perhaps there may be some "psychological" retrenchment in farm buying but we doubt that it will last long or be very pronounced unless there is far greater deterioration of the farm price situation than can reasonably be foreseen at this time.

DUTCH-HELD SECURITIES . . . Decision of the Dutch government to cut down imports of goods from this country, and to requisition and sell American securities held by Dutch citizens should do much to dispel some of the doubts that seem to be assailing a good many Americans confronted with the staggering aid requirements of the European Recovery Program. The case for European aid has been convincingly stated by its proponents, official and unofficial, but the Dutch action further tends to support it.

Europe has long limited imports from this country to the amount of dollars given it for such purposes, but the Dutch now propose to go further. Not only will they slash imports from the dollar area to conserve their dollar and gold resources, but they will strengthen the latter in the only possible way they can. In doing so they are setting an example worth emulating by other needy European countries whose nationals likewise hold extensive assets in this country.

If the Dutch have now decided to sequester and sell their citizens' dollar securities holdings, this points up not only their willingness to help themselves but also the dire need for immediate steps to keep their economy going. This need of course exists in all ERP countries; the Dutch action merely highlights it, all the more, since the sale of their securities is likely to occur at far from peak prices.

It is estimated that some $500 million are involved. Liquidation will be gradual, in line with the conservative attitude the Dutch are known to have in financial and business matters. Undoubtedly there is enough investment capital in this country to absorb these holdings if prices are right.

It is known that the Dutch are heavy holders of American railroad shares. Also, it is reported that as of December 31, they held 259,526 shares of U.S. Steel common and 15,526 of U.S. Steel preferred, among other industrial holdings.

CREDIT CONTROL AND MARSHALL PLAN COST . . . A recent proposal to apply $3 billion of Marshall Plan costs against this year's Treasury surplus has merit both from a budgetary and political viewpoint but it might seriously impair the Governments' ability to check inflation with existing powers. Of course, in view of the latest price developments and the resultant shift from inflationary to deflationary thinking, impairment of such ability may not be viewed with too much concern by many. Yet it may become a factor of real importance.

Utilization of its budget surplus to retire maturing Treasury obligations held by the Reserve banks is the Administrations' strongest weapon to check further credit expansion. Impounding $3 billion of the surplus of the current fiscal year to finance Marshall Plan requirements during the ensuing fiscal year would not only blunt this weapon but virtually halt further debt reduction out of the budget surplus. What's more, it might require more active support of the Government bond market where the debt retirement program has acted as a strong sustaining influence.

Hence care should be taken how this plan is applied, if it is approved by Congress. As long as the fund is being used in a manner that will reduce bank reserves, no harm will be done.

As I See It! BY ROBERT GUISE

IT CAN HAPPEN HERE

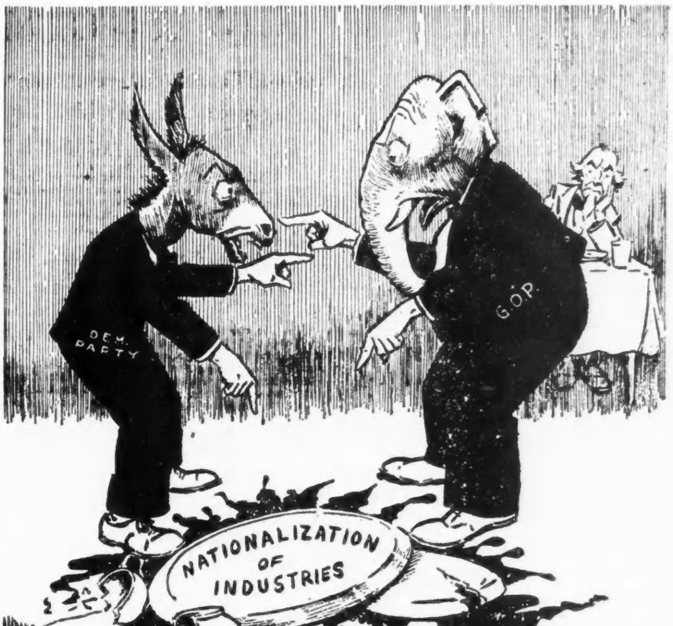
In this country, we have always justly prided ourselves on the advantages and achievements of the American free enterprise system. From every viewpoint, but particularly when we consider the great benefits it has bestowed on the American people, it has proved by far the most efficient—bar none.

In the face of a consistent world trend towards socialization, this feeling has persisted strongly. The more we see of the economic floundering of foreign countries afflicted with the nationalization virus, the more convinced we become of the superiority of our own competitive system untrammeled by regimentation and Government regulation. Facts speak louder than words. While nationalization abroad has created new and grave problems making for progressive economic deterioration, our free economy has become the strongest anchor in a tempestuous world. Little wonder that we are inclined perhaps to feel rather smug about the way we managed to preserve a free economy. Even today, as we watch countries abroad implementing one plan after another to socialize industries, our general attitude is: It cannot happen here!

But we better feel not too sure about it. It may happen. While many may not realize it, the first step towards nationalization of industry has already been taken. The Shafer bill, approved by the House Armed Forces Sub-Committee — if enacted would put the entire American rubber industry under permanent Government control.

The bill, as written, would perpetuate Government control of the rubber industry, would control and regulate production, manufacture and research. It would create a rubber czar with power to exercise allocation, specification and inventory controls of natural as well as synthetic rubber, and of products containing these raw materials, regardless of any change in rubber supply. The Government would operate our synthetic rubber plants. In short, if the bill becomes law, it will subject the rubber industry to more far-reaching controls than ever imposed on any industry in peace-time.

"YOU DID IT"



With Apologies to Marcus in New York Sunday Times

Thus the Shafer bill, while embodying a long sought national rubber policy, if enacted would also mark the first step towards nationalization of industry in this country. And it can happen, unless American business succeeds in impressing on Washington that while a national rubber policy is needed in the interest of military security, it need not be sought along the lines of nationalization. Once we begin to tread this path, there is no telling where we end up.

We may better appreciate this thought when we recall the huge synthetic oil program recently proposed by Secretary of the Interior Krug. This, too, is a Government program, calling for Government creation of a huge new industry that some day may become a direct competitor of our established oil industry. Under propitious conditions, and these can always be created if the urge is strong enough, it might be only a short step—at some time in the future—from a Government-sponsored and Government-run synthetic oil industry to nationalization of the entire oil industry.

If the trend towards industry nationalization in this country should ever gain momentum, its beginning will date back to the day on which a Republican Congress of a Democratic Administration enacts the Shafer Bill in its present form. "Who did it?" might then make an interesting argument in trying to assess responsibility.

Market Facing Additional Tests

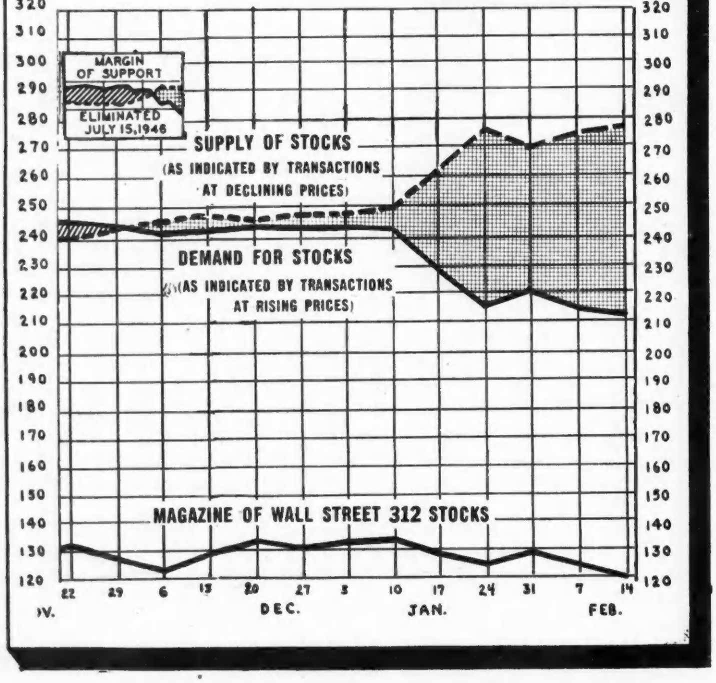
WE BELIEVE: The market flattened out over the last fortnight, but with the industrial list left to its previous bear-market low. A basis for more than minor rally is not apparent, and further downside tests are likely. The business outlook has become definitely clouded. Our investment policy, long cautious, remains no less so.

By A. T. MILLER

Following about six weeks of decline, which took the Dow-Jones industrial average down close to its previous bear-market lows, the market has done nothing of significance either way during the past fortnight. There was a minor rally, on light volume, from February 10th to February 18th. The bulk of this was cancelled under renewed selling last week, but with volume inconsequential and with pressure appearing to let up in the final two sessions prior to the lengthened holiday week-end.

This leaves the industrial average hovering precariously near the old double-bottom of approximately 163 made in October of 1946 and duplicated, within a matter of a few cents, last May. The Dow utility average has made a new bear-market low by a small margin. So far, however, the railroad average has held above the intermediate support levels of late 1947, which means, of course, that if there is to be a test of the old bear-market low in rails it is for the future. There is no indication of it up to this writing.

Our weekly index of 312 stocks, and the indexes of 100 high-price and 100 low-price stocks, remain thus far within the familiar trading range marked out since last May, but in the bottom area thereof. The over-all balance between demand for stocks and the supply thereof, shown by the Support Indicator chart on this page, is still adverse.



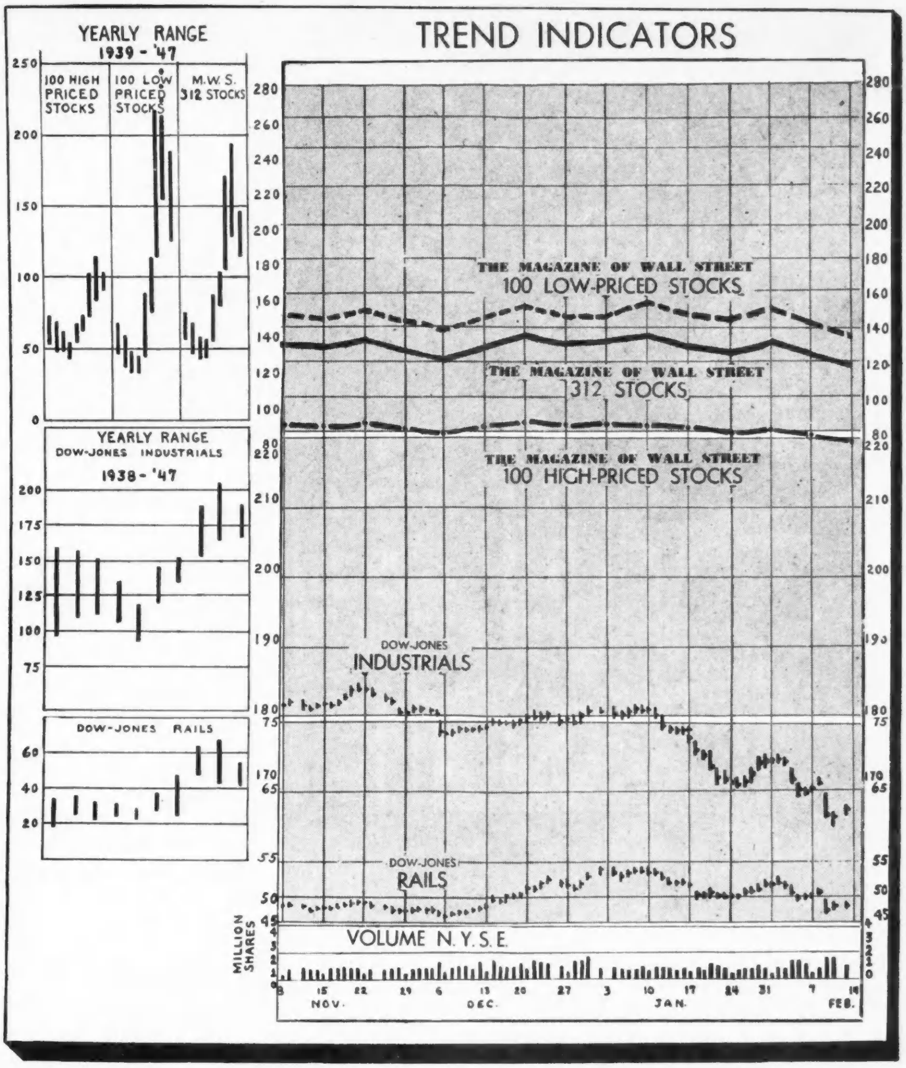
Rally Prospects Not Good

Whenever a decline in the industrial average is arrested just above a key support level, a rally of some proportions is possible, especially if, as is so in this instance, the performance of the rail list is relatively satisfactory. In our view, however, a purely technical rebound would be unlikely to amount to much, for in the volume figures around the February 11 low there was little to suggest any violently over-sold position; and there is still less as we write this analysis. On the other hand, there is much increased uncertainty in the medium-term economic outlook, which cannot be dissipated quickly. Hence, we are unable to see a basis for a non-technical recovery in stock prices in the period just ahead. If this is correct, the alternatives are a phase of narrow backing and filling while investors remain unconvinced of the significance of the decline in farm commodities; or a fairly prompt slide by the industrial average into new bear-market territory. Either way, the case for the cautious investment policy we have long recommended remains a strong one.

There is quite a debate going on

through the newspapers and over the radio, as to whether the "general trend" is deflationary or still inflationary. It no doubt leaves many investors confused and uncertain. The evidence is mixed, as it always is near an inflationary peak. For instance, in the 1920-1921 deflation farm prices turned down well ahead of industrial prices; and for a time some of the latter went still higher in the face of falling farm prices.

We believe it is adequately clear that a basic readjustment has begun, and that the only question has to do with its scope, character and duration. It has started first in the natural and logical place, for farm prices and foods had been far more greatly inflated than prices of manufactured goods. It will almost certainly extend in time to industrial raw materials which, on an average, are also too greatly inflated. It has begun to hit some of the many "gray markets" in shortage goods, and in due time will hit all of them. Typical of this, caustic soda, recently hard to get at 20 cents a pound, is now being freely offered in the "resale market" at 9 cents a pound. There is considerable similar "inflation froth" to be shaken out of the economy, in more places than the average person can be aware of.



Yet the broad average of manufactured goods prices is unlikely to decline more than quite moderately, after raw materials weaken and there is some falling off in consumer demand. This readjustment may be confined very largely to soft goods, notably textiles and apparel, and the limited list of lighter consumer durable goods in which supply has about caught up with demand or soon will. Meanwhile, there is no real contradiction in boosted steel prices, which went up less than 35% from prewar, against several times that much for farm prices, raw materials and foods.

Nor will it be surprising if the third round of wage boosts results in some further selective price increases in the mass production manufacturing industries. However, they will be harder to pass along than heretofore, and should be the "last fling." The net result of the shifting price picture strengthens the bargaining position of employers, weakens that of the unions. The odds seem to be against serious strikes, unless employers get too tough and overplay their hands. John L. Lewis and the soft-coal situation may be an exception to this generalization, in the sense that Lewis' moves can never be safely predicted. Coal is therefore one possible labor-trouble spot that will at least have to be watched.

Business Trend Probably Down

Weekly production indexes have trended moderately down since December, due largely to severe winter weather; and the Department of Commerce report showed a sizable fall in manufacturers' new orders in December. Probably all such statistics are now well behind the actual course of events.

It is hard to see a basis for generally confident investment buying of common stocks right now—buying for retention periods of six months or more. Without such demand, it might take no great amount of liquidation to put the market lower. This could happen with the general public still on the sidelines. Some sources of it are as follows: (1) selling by business men, heretofore optimistic, who now see **their own orders falling**; (2) selling for foreigners, especially the Dutch government, which has now taken over the American holdings of its nationals; and (3) the usual liquidation by estates or wealthy

(Please turn to page 620)

The Problem of Financing Further Business Expansion

By E. A. KRAUSS

Past experience has shown that a boom lasts until it runs out of money. Obviously we haven't reached that point yet but there has been increasing concern of late that the time may not be too far off when we must expect the first signs of money running out to support present boom activity.

In our last issue, we have examined the strength of consumer purchasing power and have come to the conclusion that it appears ample enough to absorb overall output at current prices. Since then, there has been a sharp break in commodity prices, strengthening hopes of declining food costs. If the latter occurs—as it now seems probable—, it would further bolster mass purchasing power in non-food fields. The unknown factor remains the possibility of greater public spending caution in the face of a downtrend of prices, that is in anticipation of lower prices in other lines than foods. That of course could well make for a recessionary trend in overall business activity, if only temporarily.

However, the probability is that the price break will be largely confined to farm crops and food. If so, that would be basically healthy. Other markets continue strong with the demand potential remaining high. Mass buying power, employment and production show no sign of weakening. In fact, any lightening of the food cost burden might conceivably counteract the recent trend toward consumer resistance to high prices.

In our last study, we have also stated that production is the true measure of purchasing power, since high production means high employment and high income. We have further found that the high rate of activity in the capital goods field constitutes an important prop for current peak production generally. Capital goods activity means chiefly business spending, and there has been talk of an impending capital pinch that might tend towards curtailment of business outlays and thereby of capital goods activity. This re-emphasizes the need for ample capital, since corporate spending is as vital to maintenance of postwar prosperity as adequate consumer purchasing power.

Are Funds Adequate?

What are the prospects? Has business sufficient funds, or can it obtain adequate funds, to continue spending at present levels? Is a capital shortage threatening our economy? The fact is that while capital until recently was plentiful enough, it now appears both less plentiful and more and more wary. The situation bears watching, for it can and undoubtedly will exert a strong influence on the business cycle in the months to come.

It is likely that business this year will find increasing need for capital to carry larger receivables and to meet higher inventory replacement costs. This need in the end may affect dividend policies, since the cheapest money corporations can obtain is from undivided profits; at the same time, it is no secret that equity capital is difficult to raise. Any further weakening of the stock market, in the wake of commodity price unsettlement or reflecting fears of an impending business recession, would further discourage new stock issues. If this should lead to deferment or abandonment of expansion plans—for lack of capital—, it would undoubtedly add force to any downturn.

Sources for Expansion

During the early postwar period, the subject required relatively little attention. Liquid resources accumulated during the war were heavily drawn upon to meet the costs of initial capital outlay programs, resulting in their gradual exhaustion in many cases. The next step was to float new capital issues in the market and, when this became increasingly difficult, to borrow from banks and insurance companies. The appended composite table of working capital positions show the vital changes that have occurred between mid-1945 and mid-1947. Highlights are the reductions in cash and securities holdings, the sharp increase in inventories and receivables and the rise in payables reflecting heavy short term borrowing. If, nevertheless, there has

Expenditures on New Plant and Equipment by U.S. Business

(Millions of dollars)

Industrial group	Total 1946	1947 Jan.-Mar.	1947 Apr.-June	1947 July-Sept.	1947 Oct.-Dec.	1947 Total	1948 Jan.-Mar.
Manufacturing	5,910	1,450	1,850	1,870	2,040	7,210	1,810
Mining	560	150	160	180	190	670	170
Railroad	570	160	220	230	370	980	360
Other Transportation	660	180	230	200	200	810	190
Electric & Gas Utilities	1,040	330	450	500	550	1,820	490
Commercial and miscellaneous	3,300	900	1,030	1,160	1,100	4,190	1,080
Total Actual	12,040	3,160	3,940	4,140	....	....	....
Second estimate	11,960 •	3,440	3,670	4,070	4,440	15,680	....
First estimate	11,020	3,640	3,560	3,770	4,020	15,180	4,100

Source: U.S. Department of Commerce and Securities and Exchange Commission.

been a net growth in working capital, this was mainly due to absorption of reinvested earnings for covering increased working capital needs. Corporate demand for additional long term capital manifested itself in a sizeable increase in new money issues. Last year, these amounted to $4.7 billion compared with $3.5 billion in 1946.

Causes of Capital Pinch

The threatening capital pinch is not only due to heavy outlays for postwar expansion but an outgrowth of steadily increasing prices. These required more funds to carry inventories and to defray costly plant expansion. The trinity of high prices, high wages and high taxes plus the drying up of the traditional sources of risk capital was bound to make heavy inroads into corporate resources. And more recently, the need for extension of more liberal credit terms in many lines accentuated the money tightness created by the combined effect of the foregoing factors.

According to official data, capital expenditures and working capital needs have recently been running at an annual rate of some $23 billion. Over two-thirds of the total was covered by internal sources, principally retained earnings and current charges to depreciation accounts, with a much smaller amount covered by the sale of securities. The balance was obtained in the market or through borrowing.

The year 1948 finds many companies with smaller liquid assets and heavier borrowings, and also with a poor market in which to obtain new capital through the sale of stock. The bond market too is running against them, with rising interest rates a problem. And finally, banks are tightening up on lending. Corporate business will have their retained earnings and their depreciation allowances—though the latter are far from adequate in most cases to serve their purpose. And they will have access to the capital market to the extent that this market is supplied by the savings of the public and the availability of venture capital.

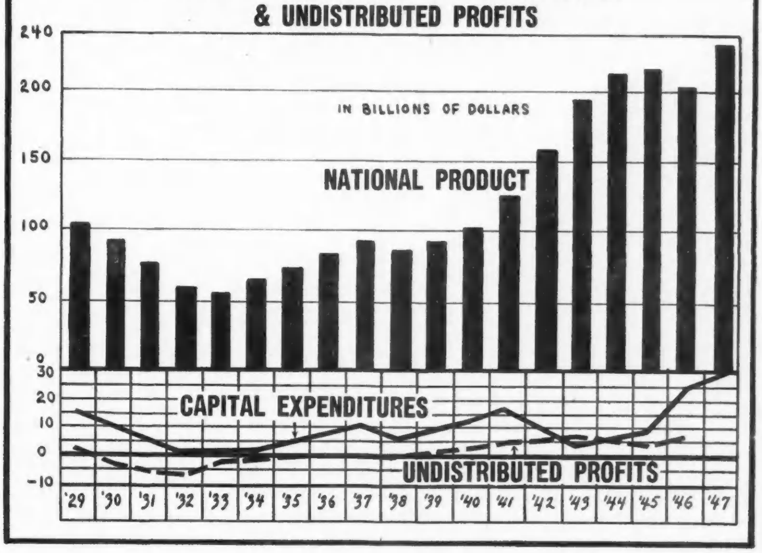
What are the prospective capital requirements this year, and how great the sources of funds for business expansion, upon continuation of which depends a substantial measure of our postwar prosperity?

According to an estimate of the Department of Commerce, outlays for new plant and equipment planned by American business, exclusive of agriculture, will approximate $4.1 billion in the first quarter of 1948, with manufacturing companies accounting for the largest share, as shown in the accompanying break-down of this figure according to industry groups. Indications so far are that total outlays for the year may be but little under last year's aggregate of some $18 billion; if realized, such expenditures would support a high rate of overall business activity. Inclusive of working capital needs, total capital requirements this year might run as high as $22 billion. The question is: Will these capital needs be readily met?

As in recent years, the larger part of the required funds will have to come out of internal resources, chiefly retained earnings, which above all requires substantial business profits. Whether 1948 corporate earnings will aggregate as high as those in 1947 is an open question; indication are that undistributed earnings this year may average less. Retained earnings last year were around $12 billion, a large part of which represented inventory profits, much of it still tied up in carrying the higher-priced inventories and subject to erosion in the event of marked price declines. In view of indicated price trends, inventory windfalls this year are likely to be small, making for corresponding reduction of both corporate profits and undistributed earnings.

On the other hand, depreciation reserves are likely to be available in the same amount as last year, possibly even somewhat more in line with

NATIONAL PRODUCT, CAPITAL EXPENDITURES & UNDISTRIBUTED PROFITS



Current Assets and Liabilities, All Corporations Excluding Banks and Insurance Companies

(Billions of Dollars)

	June 30, 1945	June 30, 1947	Change
Current Assets			
Cash on hand and in banks	$23.0	21.8	— 1.2
U.S. Government securities	22.4	13.0	— 9.4
Acocunts and notes receivable	25.6	32.0	+ 6.4
Inventories	26.3	39.1	+12.8
Other current assets	1.4	1.5	+ 0.1
Total current assets	98.7	107.5	+ 8.8
Current Liabilities			
Accounts and notes payable	25.1	29.5	+ 4.4
Federal income and tax liabilities	16.7	8.7	— 8.0
Other current liabilities	8.3	9.4	+ 1.1
Total current liabilities	50.1	47.6	— 2.5
Net Working Capital	48.6	59.8	+11.2

Source: Securities and Exchange Commission. Figures are rounded and will not necessarily add to the totals shown.

spreading policies towards heavier depreciation ratios. Altogether, internal resources available for financing capital outlays were last year somewhat in excess of $16 billion, according to official estimates. It is thought that such funds this year are not likely to exceed $14 billion, though in view of the impossibility of accurate advance estimates of corporate profits, this figure must necessarily be highly tentative. Yet it appears fairly realistic except under markedly recessionary business conditions.

Additionally, corporations still hold sizable amounts of Government securities, perhaps between $10 and $12 billion at the year-end. While the bulk of these holdings may represent tax and other reserves, several billions no doubt could be sold to bolster internal resources. If we assume such sales to amount to $2 billion, this would swell the total of prospective internal resources to some $16 billion. The $6 billion difference between this and indicated capital requirements of $22 billion would have to be secured externally, through bank borrowing or in the investment market.

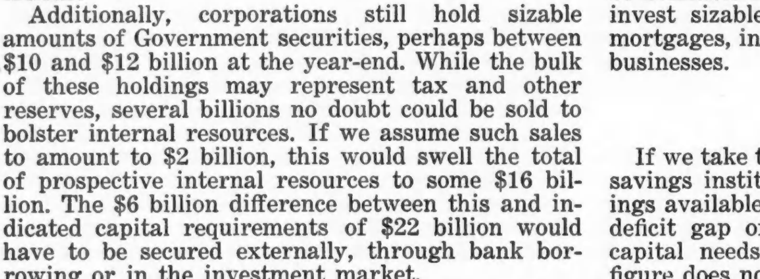
Bank credit is being tightened, yet it will continue to be available to business for essential working capital needs and a further increase in bank loans is definitely indicated. How much is a moot question. If we assume a total of $2 billion, this would leave $4 billion of new corporate funds to be secured in the investment market, or roughly about the same as in 1947.

However, there will be other bidders for investment funds. The capital market is likely to be called upon to finance some $5 billion of residential building construction, and it may have to absorb a $2 billion net increase in state and municipal securities. Thus the aggregate amount likely to be sought in the investment market may be as high as $11 billion, and this in turn raises the question whether the country's savings will be adequate to absorb such a volume of securities, particularly under possibly unfavorable market conditions.

The chief burden of financing usually falls on institutions such as savings banks and life insurance companies through which individual savings are being channeled into enterprise, mainly in the form of bonds and mortgages. The net addition to their resources runs at an estimated annual rate of somewhat over $7 billion, a substantial but far from excessive amount in relation to indicated financing needs. Additional savings accumulate in estate and trust accounts, pensions and other funds, and some accumulate as demand deposits. Thus the total available savings are difficult if not impossible to estimate. The Department of Commerce in its estimate of national income places personal savings in 1947 at around $12 billion. Not all of this, of course, will be available for the investment market. Individuals invest sizable amounts directly in securities and mortgages, in their own homes or in unincorporated businesses.

How Big a Gap?

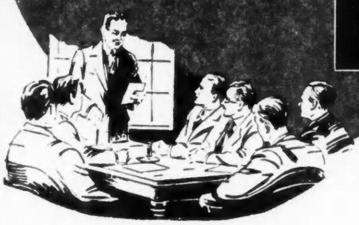
If we take the annual asset increment of principal savings institutions as a criterion of possible savings available for the investment market, we find a deficit gap of about $4 billion between indicated capital needs and indicated available funds. The figure does not purport to be accurate; no accurate calculation is possible. But it does point to a possible capital pinch, and it distinctly points up the main problem: how to provide adequate savings to finance capital outlays large enough to sustain the postwar boom. The pinch of course is in the field of equity capital.



Unfortunately there are certain serious obstacles to capital accumulation and its employment in this manner. One is our tax structure which limits the capacity to save and destroys the incentives to capital accumulation and investment. This refers not only to high income tax rates but also to the capital gains tax and double taxation of corporate funds paid out as dividends. The other is today's overemphasis on personal consumption as a means of maintaining a high level of economic activity.

(*Continued on page* 616)

What . . . . YEAR-END STATEMENTS *Reveal . . . .* FOR 1948



By J. C. CLIFFORD

Though corporate reports for 1947 received to date confirmed earlier estimates of record peacetime sales and earnings in encouraging fashion, managements generally cautioned their shareholders against overenthusiasm in studying the road ahead. Confidence in the outlook for the first half of the current year was widespread, and in individual cases hopes of prolonged prosperity were expressed.

But many trends developed as 1947 progressed, to temper fervor over the sharp upsurge in sales and profits reported by many large concerns. As one leading executive expressed it to his shareholders in reporting the best year ever experienced by his company in half a century: "1947 was a year of uneasy prosperity." How broadly felt this managerial opinion was in other direction is revealed by an examination of annual reports, balance sheets and income statements, though conservatism rather than apprehension over the future was the determining factor.

Sales at Historic Heights

The seller's market that persisted during last year in practically all lines, aided by the general uptrend in prices and an expansion in consumer buying power, pushed sales up to historic heights for any peacetime year, though profits margins tended to narrow generally under the impact of fast rising costs. As one after another postwar expansion and modernization program began to bear fruit during last year, the increased flow of materials and finished goods found ready takers, with the uptrend reaching a crescendo during the final quarter. Many months of relative labor peace also helped to smooth the path. Anxiety over the inflationary spiral and the accumulation of highpriced inventories, however, along with awareness that supply and demand were rapidly approaching balance in many lines, invited unusual caution in drawing up year-end earnings statements and balance sheet figures, as well as in appraising the continuance of programs here and there.

As we shall presently see in discussing a few individual reports, bookkeeping adjustments as usual at the end of the year tended to distort the net earnings picture of numerous concerns. The establishment of sizable reserves against potential inventory losses, against inadequate provision for depreciation with replacement costs now so high, to allow for unexpectedly higher costs of uncompleted expansion programs, in many instances reduced net earnings per share substantially below what otherwise might have been shown. In other cases, large sums were set aside to offset possible losses on foreign properties that perhaps rationally should have been allowed for in earlier years.

On the whole it looks as if the proportion of net earnings retained in the business rather than passed along to stockholders was much larger than the superficial figures would indicate, and in view of problems now looming up, shareholders should commend their managements for these conservative steps. Though taxes have to be paid upon reserves in excess of depreciation rates allowed by the income tax authorities, if total plants and equipment had to be replaced at current costs, all earnings for many years to come would hardly make up deficiencies under present conditions. In this light, some analysts warrantably point out that net earnings in many cases are overstated.

The Inventory Problem

Now that business inventories have crossed the $41 billion mark, and commodity prices have begun to tremble, stockholders in those concerns that have made adequate provision against possibly severe losses later on have much to be thankful for. While in relation to over-all industrial sales, the current level of inventories is quite normal, with certain concerns in certain lines of business the threat is more alarming. Where the hazard looms greatest is with some less strongly entrenched companies that have lately experienced easy selling and contracted for more inventory essentials than the coming competitive era will warrant, or have accumulated finished goods for firmer prices. Inspection of some balance sheets issued at the year end by larger and wiser concerns using materials such as hides, fats and oils, prices for which are very volatile, show that extraordinary proportions of earnings have been allotted to reserves as a cautionary measure. Come what may during 1948, these farsighted managements are taking no chances as to shrinkage in inventory values later on, and similar policies have been adopted on a wide scale by leading concerns all along the line.

The tendency of interest rates to stiffen during

Comparative Earnings and Operating Data of Selected Companies

	Net Sales—$ Million 1947	1946	Operating Margin 1947	1946	Net Per Share 1947	1946	—1947 Quarterly Net Per Share— 1st	2nd	3rd	4th
American Woolen	$176.0	$170.8	16.6%	20.5%	$15.37	$21.86		$7.96		$7.41
Carrier	52.9	23.5	9.1	deficit	3.44	.20	Not Reported			
Case, J. I.	81.2	38.2	9.6	deficit	5.50	1.07	Not Reported			
Devoe & Raynolds A	42.1	34.1	11.1	9.6	5.62	3.50		3.07		2.55
Firestone Tire & Rubber	638.4	577.8	7.2	11.2	13.45	13.21		6.86		6.59
Goodyear Tire & Rubber	670.7	616.5	9.3	15.0	10.93	16.07		4.90		6.03
Hercules Powder	131.2	100.7	16.3	14.8	4.75	3.03	1.49	1.20	1.00	1.06
International Harvester	741.2	482.3	9.0	4.2	10.07	3.91	Not Reported			
Johns-Manivlle	133.9	92.0	13.1	8.1	3.17	2.01	.77	1.01	.78	.61
Koppers Co.	162.5	112.1	8.5	5.3	4.94	2.79	1.47	1.26	1.16	1.05
New York Air Brake	17.5	15.0	16.5	9.5	6.19	3.65	1.27	1.70	1.58	1.64
United Fruit	Not Reported				5.37	4.51		3.03		2.34
United States Rubber	580.9	494.7	6.4	6.9	9.39	10.23		4.78		4.61
West Virginia Pulp & Paper	86.0	67.2	20.7	13.5	11.40	4.93	2.45	2.93	2.81	3.21
Woolworth, F. W.	593.3	552.3	10.6	11.2	4.32	4.12	Not Reported			

1947, along with steadily mounting need for working capital with which to carry high-priced inventories and to implement construction programs led to substantial financing programs by large concerns. Short term bank borrowing also tended to rise on a wide scale, although the larger concerns laid stronger emphasis upon long term serial loans. As the uptrend in rates became evident during the last half of the year, a decided scramble arose to complete these borrowings on the best available terms, and the same thing was true with new issues of preferred stocks and equities. For these reasons, total corporate financing in the final quarter rose sharply to around $1.9 billion, thus establishing considerable changes in many year-end balance sheets.

New Borrowing

A continuation of stand-by credits of large proportions also featured last year's financing, as was the case in the previous year, and as only a part of these have been utilized, their benefits often are not reflected in the balance sheets. It is certain that most of the large corporations have adequately fortified themselves to conduct their operations soundly during 1948, though in many cases further financing will be required to carry out extensive construction programs, unless these are deferred in hope of a downtrend in costs. The large scale term borrowings by strong companies at rates under 3% naturally enhance their net earnings potentials as well as providing protection against contingencies if a recession should occur. On the other hand, the sinking fund provisions of some of these loans could rather easily restrict dividend distributions in more than one instance if lean times were to unexpectedly appear.

While it is true that operating margins of industry as a whole seem to have narrowed somewhat, this established no rule, for the results were highly divergent in individual company experience. Regardless of this, net earnings on record-breaking volume topped all previous peactime levels for numerous lines of business, although normal and surtaxes often were far higher than when EPT was in effect. Exceptions to this performance were the net earnings of some distributors that suffered heavy inventory losses during the year or cleared their shelves of less desirable merchandise through markdown sales. Conversely, the uptrend in prices naturally caused widespread inventory profits for many concerns that are likely not to recur during 1948.

Individual Reports

Perhaps the best manner in which to clarify some of these trends we have discussed is to study the annual reports of a few outstanding concerns in different lines of business, within the limitations of space. To aid our readers in this undertaking, we append two tables with statistical data covering 15 important companies. One of these tabulates balance sheet items and the other lists operating figures. An examination of these two condensed synopses may proxe helpful in following our comments.

American Woolen Company ended 1947 with net earnings equal to $15.37 per share compared with $21.86 for 1946. Though net sales rose by 3.03% to $175.9 million, increased labor and material costs climbed at a faster pace reducing operating margins to 14.6% against 20.5% in the previous year. Unit volume, too, was slightly less than in 1946, thus in part accounting for the dip in net profits. The spread in relative net earnings might have been wider, had the company allotted $3 million to contingency reserves as in 1946, but in 1947 this account was expanded by only $1 million, for a total of $4 million, or 6.8% of inventory values at the year end. Scant domestic supplies of wool have forced the price of Australian wools up about 77% despite the cut in duties. American Woolen's inventories on December 31 were $10.5 billion higher than a year before, but with no signs of let-up in demand and with spring prices for woolens up 10%, its position seems sound. Backlog orders at the beginning of this year were substantial at $62.2 million, though $8 million less than a year ago.

Due to last year's expansion of the building boom, sales by John-Manville Corporation rose by 45% to a new peak level of $133.8 million. Increased production and higher prices contributed together to establish the new record, though the company's

policies have held its prices to a level only 28% above 1941 on the average. This increased volume widened operating margins to 13.1% and though taxes rose by $2.4 mi llion, final net earnings climbed to $9.48 million or $3.17 per share after allowing for preferred dividends. Of net earnings for the year, the company paid out about 45%as dividends, retaining 55% in the business. Net current assets expanded by about $2.3 million but the current ratio narrowed slightly to 2.8.

Postwar Expansion

A postwar modernization program involving nearly $50 million came nearer completion last year through outlays of $22.9 million. The company has a reserve fund of $15.6 million largely invested in Government securities, upon which it can draw for further constructions costs, besides which it has a stand-by credit with an insurance company for loans up to $25 million at 2.7%, repayable in twenty years with proper amortization. As $20 million of this credit was still unused at the beginning of the year, the company's financial status appears impregnable. The outlook for Johns-Manville in 1948 is enhanced by prospects of a rapid turnover of everything it can produce, especially as new facilities and processes tend to increase output.

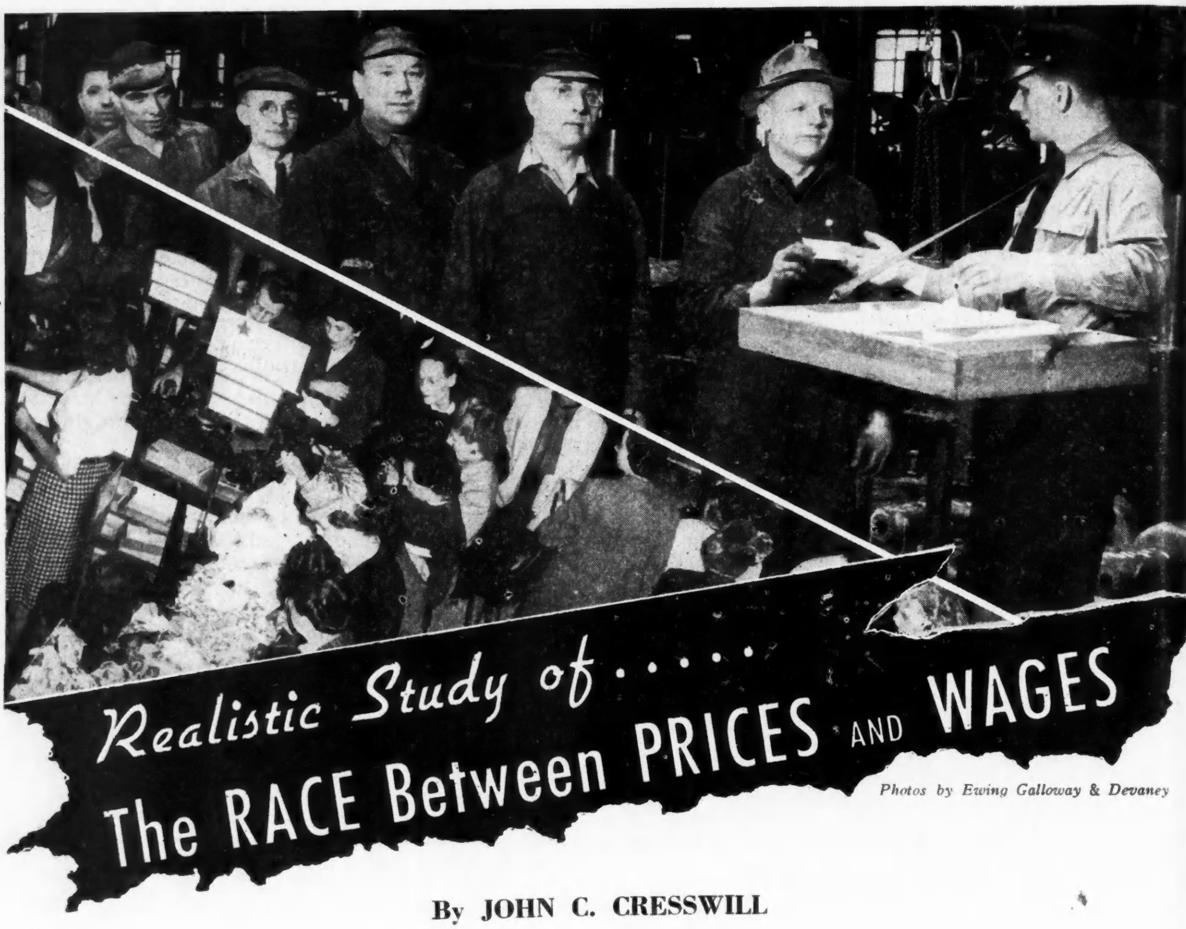
The 1947 annual report of Hercules Powder Company contains many points of interest. Regardless of construction outlays amounting to $14.5 million, that nearly completed the company's expansion program, working capital was approximately unimpaired and no additional financing seems likely to be in sight. Although the company has carried a reserve of $1.58 million for contingencies on its books, an inventory loss of $962,594 incurred during the third quarter was charged against current earnings. Depreciation reserves at the year end were augmented by a special provision of $1.3 million to offset higher than expected construction costs. The inventory write down saved about $366,-000 in income taxes but the special depreciation reserves were subject to the full levy.

After the above adjustments, net earnings applicable to the common stock amounted to $4.75 per share, permitting aggregate dividends of $2 per share against $1.50 during 1946. Expansion of the company's business into the fields of rayon and plastics holds promise for good results during 1948, especially as foreign demand for these products has substantially increased and domestic demand still exceeds supply.

Last year's boom time operations proved highly profitable to West Virginia Pulp and Paper Company, so much so that the conservative management called the attention of its shareholders to average earnings for fifty years past, along with the valleys that sometimes occurred. Since this concern has paid dividends regularly from 1899, the long record was far from discouraging at that. Peak sales of $85.9 million compared with $25.2 million a decade ago, but a sounder yardstick of growth has been the steady rise during the period in production of paper and paperboardfrom 297,347 tons in 1938 to 637,542 tons in 1947. Under abnormally good conditions last year, this sound concern earned $10.9 million against an (*Continued on page* 615)

Comparative Balance Sheet Items of Selected Companies

		Current Assets ($ Million)	Cash Assets —As Per	Inventories Cent of Current	Receivables Assets—	Current Liabilities ($ Million)	Current Payables as % of Current Liabilities	Net Current Assets ($ Million)	Current Ratio
American Woolen	1947	$88.5	12.8%	66.0%	20.5%	$29.0	56.5%	$59.5	3.1
	1946	78.5	15.8	61.3	20.2	21.9	25.8	56.6	3.6
Carrier	1947	$25.3	9.7%	58.0%	29.0%	$10.9	61.5%	$14.4	2.3
	1946	19.4	10.5	55.0	21.2	8.2	79.2	11.3	2.4
Case, J. I.	1947	$38.9	17.9%	76.0%	6.0%	$11.4	70.3%	$27.5	3.4
	1946	36.3	23.2	68.0	3.5	4.4	84.0	31.9	8.3
Devoe & Raynolds	1947	$17.5	19.4%	59.7%	20.5%	$5.6	55.5%	$11.9	3.1
	1946	16.9	38.4	38.4	23.1	6.0	66.7	10.9	2.8
Firestone Tire & Rubber	1947	$225.5	11.1%	54.7%	34.1%	$79.9	58.7%	$145.6	2.8
	1946	200.9	16.0	49.1	34.7	56.9	68.5	143.9	3.6
Goodyear Tire & Rubber	1947	$291.4	26.9%	51.4%	21.9%	$48.4	66.6%	$243.0	6.0
	1946	223.2	22.8	45.6	31.6	48.6	70.0	174.5	4.6
Hercules Powder	1947	$45.2	38.4%	40.4%	20.8%	$15.0	22.0%	$30.2	3.0
	1946	42.4	37.8	38.6	23.2	12.7	30.9	29.7	3.3
International Harvester	1947	$340.2	32.6%	59.1%	8.2%	$106.9	65.5%	$233.3	3.2
	1946	338.8	44.6	46.0	9.3	68.8	75.0	270.0	4.9
Johns-Manville	1947	$42.2	20.2%	42.8%	37.0%	$15.3	58.9%	$26.9	2.8
	1946	31.1	21.5	44.5	35.4	8.5	77.6	24.6	3.9
Koppers Co.	1947	$44.8	14.8%	43.3%	41.7%	$17.9	66.0%	$26.9	2.5
	1946	41.8	12.7	45.4	41.4	14.0	80.5	27.8	3.0
New York Air Brake	1947	$7.5	14.8%	46.5%	38.0%	$1.7	75.0%	$5.8	4.4
	1946	6.8	16.9	47.5	34.7	1.7	77.0	5.1	4.0
United Fruit	1947	$53.6	49.0%	19.0%	31.5%	$28.8	62.6%	$24.8	1.9
	1946	70.8	66.0	8.5	25.4	39.1	43.6	31.8	1.8
United States Rubber	1947	$252.1	25.1%	48.0%	26.8%	$82.0	52.4%	$170.1	3.1
	1946	195.8	17.6	51.5	30.8	77.3	40.0	118.4	2.5
West Virginia Pulp & Paper	1947	$26.8	40.3%	41.7%	14.2%	$3.2	91.0%	$23.6	8.4
	1946	26.0	32.0	39.4	20.4	3.9	77.0	22.1	6.6
Woolworth, F. W.	1947	$173.6	50.0%	48.5%	1.4%	$54.8	51.0%	$118.8	3.2
	1946	161.2	53.5	44.7	1.8	53.0	52.1	108.2	3.0



Realistic Study of..... The RACE Between PRICES AND WAGES

Photos by Ewing Galloway & Devaney

By JOHN C. CRESSWILL

It would be premature to assume that—as some newspaper headlines imply—the drop in farm commodities has broken the back of labor's third round wage drive. It is quite possible that it will act as a brake, provided that the price slump will actually be translated into a really noticeable reduction in the cost of living, but this so far has not yet occurred and time is running out. Wage negotiations are already getting under way.

Realizing that price declines are playing into the hands of employers, organized labor has already placed itself on record. AFL economists contend that the commodity break is temporary and advise unions to go on with their wage demands. Walter Reuther called the break a "minor flurry" which will not affect the cost of living. Others, sensing a weakening of their living cost argument, are falling back on the usual second line defense—high corporate profits which they feel labor ought to share in greater degree. Well they know that lower prices constitute industry's best bargaining ammunition.

Labor Demands

So far at least, recent price developments have not yet caused unions to change their demands. They are still asking for 25c to 30c an hour more and they are likely to hold that position unless the cost of living drop is speeded up. The cost of living, as measured by the Consumers Price Index, has declined from 167 to an estimated 164. Were this downtrend to continue, the entire 8% rise, since last spring, would soon be wiped out.

With labor attitude rigidly adhering to previously formulated demands, the important change in the picture is not union strategy but a new attitude on the part of employers. Where the latter had formerly been thinking about settling wage demands on a basis of a 12c to 15c hourly increase, resistance will now be strengthened to hold for a maximum of perhaps 5c to 10c in many cases. Recognizing that the statistical picture may not support a wage rise of more than a few cents, unions are likely to insist on certain fringe concessions to bolster their overall gain and make any enforced concessions in the basic wage issue more palatable to the rank-and-file. But there is every indication that unions in the basic industries may not be inclined to trim their demands much.

Even before the commodity price break, labor's case for a "third round" of wage boosts—on the basis of living costs alone—has not been as strong as widely claimed, hence the attack on high corporate profits. Until quite recently, labor leaders publicly avowed that they would rather have a decline in the cost of living than another wage rise. Now that living costs begin to decline, they are looking around for a firmer footing with a good deal of talk about "employers' ability to pay."

It is but natural that the relationship between

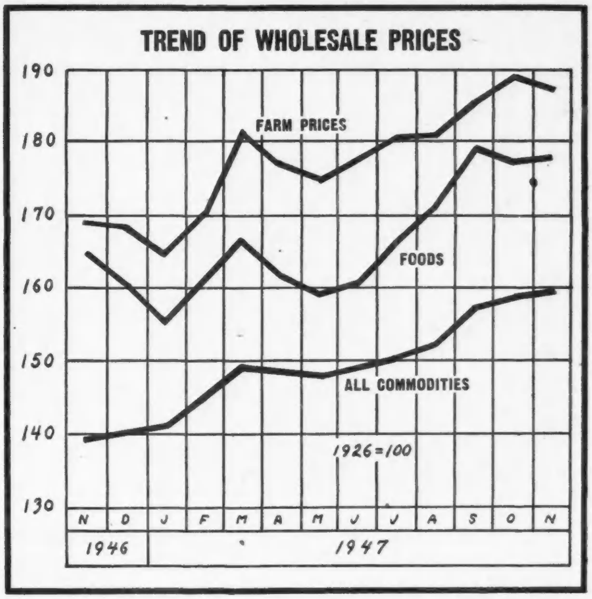
wages and living costs will become a subject of heated discussions, that facts about the trend of prices and wages will assume even greater significance as "third round" talks get under way. Some of the facts are perhaps not fully recognized by the public at large.

It may be well to recall that the wartime Little Steel formula assumed that a 15% rise in hourly pay, though the work week moved up from 40 to 45 hours, offset only a 15% rise in the cost of living. When the war ended, emphasis was switched to take-home pay—52 hours' wages for 40 hours' work. Since price decontrol, the argument was that wages must keep up with the cost of living. Labor's latest claim, apart from the "profit-sharing idea," is that prices have run away from wages, hence wage boosts are in order. What are the facts?

As shown in the accompanying tabulations, compiled by the National Industrial Conference Board and based on Bureau of Labor Statistics figures, living costs since 1946 to-date have risen only slightly faster than wages. They increased by 27% while hourly earnings are up 26.1% and weekly earnings 24%. In other words, a relatively insignificant gap between wages and prices developed since the war's end, which seemingly is the main basis for labor's contention that prices have run away from wages, that, therefore, "third round" increases must be demanded.

The postwar trends alone, however, hardly present a complete case. The longer range perspective is not only interesting but pertinent. It shows that since January 1941 (base date of the Little Steel formula), living costs have risen 63.7% while hourly earnings went up 85.4% and weekly earnings 91.5%. On this basis, definitely, not prices but wages have been running away; in fact a good case can probably be made that the rise of wages was in no small part responsible for the inflation in prices, at least industrial prices for wages form an important part of production costs.

If a comparison is made with 1939, the last full peace time year, we find the following changes: Cost of living 66% higher; average hourly earnings have doubled; weekly earnings are well over twice those of 1939. As a result, the average worker in manufacturing receives about 20% more per hour today than in 1939, in terms of real purchasing power.



Wages vs. Prices

On basis of the evidence presented and regardless of one's attitude towards the wage question as such, one can hardly maintain —as was recently done by the Secretary of Labor Schwellenbach, that for the last eighteen months, prices have risen consistently faster than wages; that wage increases, since the middle of 1946, have been in pursuit of a rising cost of living: As shown, there has been but a slight gap between the rise in prices and that of wages, a gap that has already been narrowed by the drop in living costs since the commodity price break. Needless to say, the further trend of food prices will be an important factor in the entire equation. Should food costs rebound, labor has a t least some statistical case as far as price-wage trends since January 1946 are concerned. If they decline further, the remaining gap may be quickly closed.

Stiffening in Employer Attitude

At any rate, the latest price developments make a stiffening in employer attitude towards union demands a foregone conclusion. Not only is the case of the former strengthened by declining living costs, but also by the uncertainty injected into the business outlook. Concern that the price decline may spread to other fields such as manufactured products—with resultant losses to manufacturers—may make them reluctant to agree to wage hikes, and such reluctance could *(Continued on page 620)*

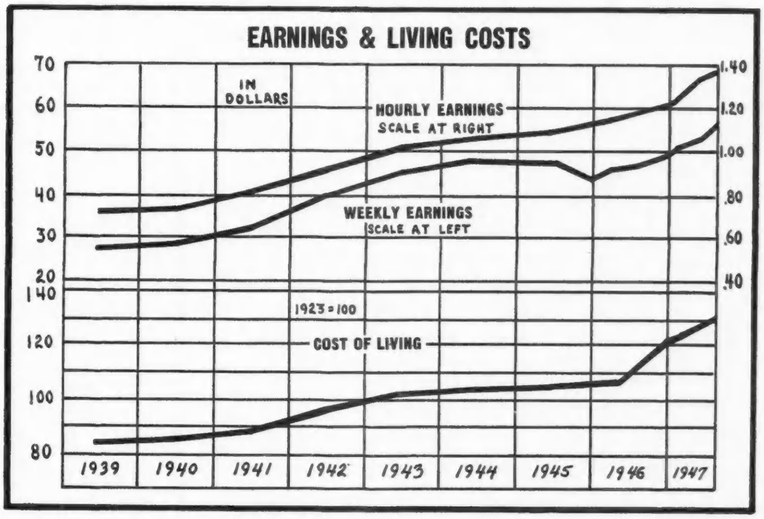


Photo by Ewing Galloway

CAPITAL ITEMS

By E. K. T.

SUNDSTROM PLAN (Rep. Frank L. Sundstrom, R, N. J.) to locate hidden dollars abroad by issuing brand new paper money is regarded as having merits, but also demerits. Treasury experts are apprehensive that doubt as to the soundness of this country's currency might be raised. State Department staff members wonder whether a harmful effect, diplomatically, would flow from the idea: foreigners who are hoarding dollars would be compelled to turn them in for local currencies at official values—a procedure that would result in losses to their nationals. Offsetting advantages would be reflected in the financing of imports from this country, in ferreting out possible tax dodgers with foreign caches.

WASHINGTON SEES:

The dropping commodity market gave the republican party its first important break in weeks for it lightened notice of the 1948 campaign issue the GOP feared most — responsibility for high prices. The issue was not erased and fingers here were crossed as hope rose for stabilization at reasonably lower levels.

Importance of the political implications was not lost upon the democrats. From Agriculture Secretary C. P. Anderson's office came the grim analysis that the relief was temporary, seasonal, and controlled by demand which will grow—unless there is a real recession! A high price to pay for lower prices.

On another front—the legislative—certain outlooks were being revised.

The effects upon republican tax revision plans were not assessable at once. But it was considered that the original Knutson program while adversely hit, was not ruled out. Any material reduction in national income, on the other hand, could force congressmen to choose between tax cuts and a balanced budget.

Evidently filed away, if not forgotten, were the several inflation control ideas—an action which the republicans think has great psychological benefit for their cause. Again, they had their minds on the events which flowed in the wake of the OPA removal—associated with the repealer or otherwise.

LINCOLN DAY speeches this year ran to a basic pattern—declarations of platform by the leading aspirants for the Presidential and subordinate nominations. But there was one ominous note: foreign policy was moved to top partisan position by the assertions of the two front runners—Gov. Thomas E. Dewey and Senator Robert A. Taft. Other prospective issues which boiled to the top of the political oratory were GOP economies under a congress of its control, failure of the Administration to effectuate an inflation halting plan that would win general support, and appeal to leftists by way of meeting the Henry Wallace challenge.

SINCERITY does not ring through the Department of Justice suits against CIO President Philip Murray and his organization. The indictment selects the weakest part of the Taft-Hartley Act as the "battleground." Senator Taft has publicly expressed doubt that congress can prevent a union newspaper from expressing preferences in national elections without offending against the First Amendment of the Bill of Rights. Seldom have both parties to litigation been so outwardly happy to be enmeshed in it. Lagging union dollars are being drawn into the fight against the T-H statute and neither Murray nor Attorney General Tom C. Clark is making any effort to bring home to general understanding that the law as a whole is not being litigated, but merely that part which deals with political activity by union papers. President Murray has said every resource of his union will be thrown into the "fray." That included not only the financial but also the publicists personnel. And both are working overtime!

As We Go To Press

Re-appraisal of Harold Stassen's political outlook in the Ohio Presidential preference primary in which he will meet Favorite Son Robert A. Taft, is netting predictions displeasing to the senate leader's friends. They're getting reports of wholesale switches from the democratic to the republican registry lists, in communities where organized labor is strong. That means only one thing: laborites are qualifying for the purpose of knck-ing off one of the authors of the bill which is their pet hate.

Ohio almost never gets far off the republican reservation, but it is never within the absolute control of an individual. Senator William E. Borah went into the 1936 primary against Taft, only for the purpose of giving an anchorage to those who didn't care to moor at the Taft landings. Borah didn't even enter the state personally, but he took five convention votes from Taft. Stassen is aiming at 20, may get five.

Consensus is that Taft's attempt to get Stassen to withdraw was a move of desperation. He recognized a favorite son who doesn't have the entire delegation from his own state shows a weakness opposition camps can effectively spotlight. And for Taft, there's no 1952 to look forward to — if he doesn't get the nomination this time the fact he's "been to the well" so often will eradicate him four years hence. The same is true of Dewey and Vandenberg but if they're as jittery as Taft they don't display it.

This country is not going to be caught again in the position it was, on Pearl Harbor Day, when it realized the scrap we had been sending to Japan was being sent back in the shape of munitions. The Armed Forces now has a munitions review board foreign trade division which passes on, vetoes, all proposed exports of commodities which are, or could be converted to, sinews of war. Russia is protesting. Inef-fectively.

Reports reaching Washington suggest that the Philippines are just muddling through the period of their national infancy, insofar as establishing good foreign trade relations are concerned. Latest suggestion, originating with Placido Mapa, new Secretary of Commerce and Industry, is imposition of taxes on Philippine exports to finance development of consumer goods industries in the islands.

New industries would be encouraged to set up with government financing drawn from the export tax. Consumer goods are mostly imported. Mapa, according to reports reaching trade sections of State and Commerce Departments here, envisions reduction in consumer goods prices would make possible pay cuts which would help all Philippine business. He believes labor would approve, on the ground their lower wages would actually buy more goods.

And ... negotations are still under way between the Philippine government and foreign insurance firms doing business in the islands, seeking a compromise agree-ment on the official plan for laws to force the companies to invest reserves in island securities.

Original plan was to require insurance company investment of 50 per cent of statutory reserves in Philippine securities. Compromise figure is 30 per cent but neither side is saying a positive "yes" on that level. Legislation has been prepared. Only the points at which percentage figures will appear are still blank.

There's a tremendous backlog of new, better and cheaper ways of doing a multitude of things, waiting for the U. S. Patent Office to catch up with its work. Included are important wartime production methods which won't be available to the public until patent protection is complete. There are over 100,000 cases -- two normal years work -- backed up in the Office. More are coming in daily.

Other agencies of government, particularly those concerned with public housing, are trying to pick flaws in recent Census Bureau statistical releases. They show 75 per cent of the families in the United States now have incomes above the level that warrants expenditure of taxpayers for low-cost housing. So far the figures are standing up.

Some drop in materials costs is adding to the consternation of bureau chiefs who foresaw long tenure, big payrolls, in a new splurge of building. Reduced to its elementals, the Census report says: assuming a family can afford 25 per cent of its income for housing, this means any family with annual income of $2,000 or more is above the bracket which needs subsidized dwellings. The median found for 1946 was $2,809.

Effort to switch the issue to "veterans benefits" was equally unavailing. Said the Bureau: "There was no significant difference between the median total family income in which there was no veteran of World War II ($2,909) and that of families in which the head was a war veteran ($2,778).

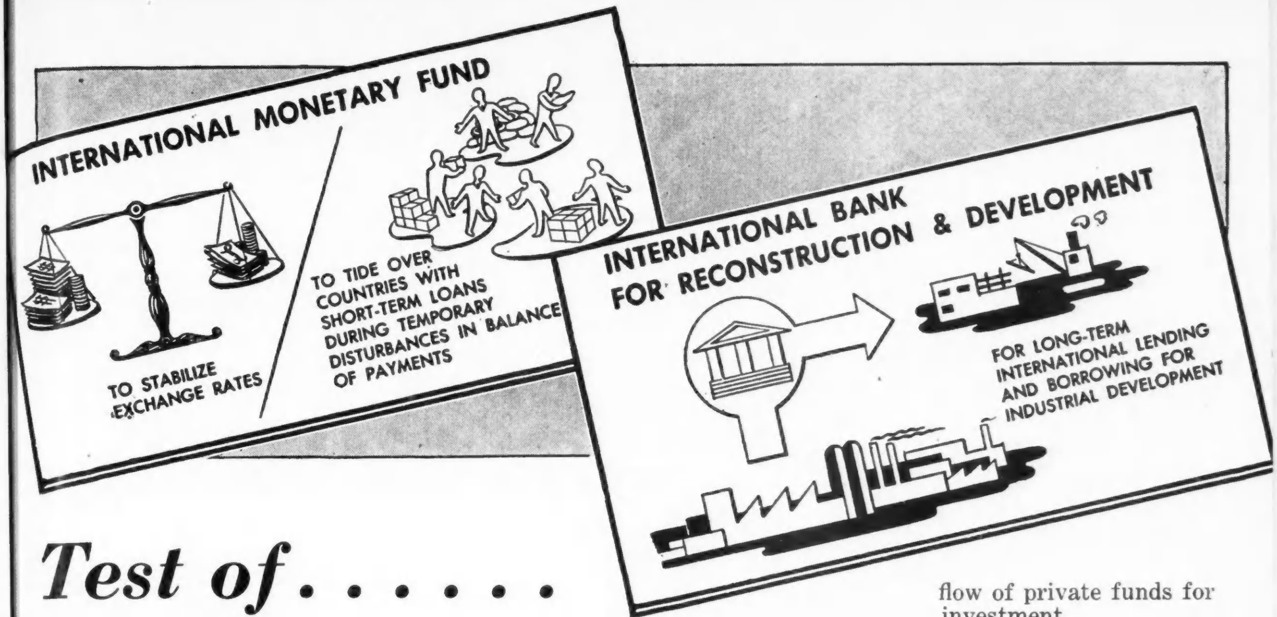
Further on housing and the industries which serve it: trouble may be ahead as new houses containing oil burning heating equipment are completed in areas where oil dealers refuse to take on new customers. According to one government estimate, 65 per cent of new housing units under construction are equipped with oil or gas furnaces.

Legislation to stop proposed changes in government regulations affecting unemployment compensation procedures has been favorably reported by a committee but faces a fight. The White House is determined upon expansion, congress is aiming at contraction. It so happens that tests made last year prove congress doesn't have the votes on this issue to override a veto; neither does the Administration have the votes to bring about affirmative action. It's a stalemate.

The suggestion for creation of a huge newsprint industry in Alaska, bringing with it the general development of the teritory and many new service trades, can be forgotten. It cannot be financed under the risks which the senate's small business committee concedes exist.

Newsprint is not a profitable commodity. Many mills went broke attempting to meet Canadian and Finland prices. Currently, paper is enjoying an excellent market, but the downward trend already is asserting itself. And the senate group's proposal that publishers form a cooperative, put up in excess of 50 million dollars to process the timber of Tongass National Forest is receiving a chilly reception.

Committeemen were enthusiastic at first. But they took a junket to Alaska, looked the situation over, found it wrapped in problems that are insuperable. For example, it is doubtful if paper can be milled without destroying the salmon fisheries. The labor supply market seemed sufficient. But it was found that federal workers there have set a pattern of 25 per cent bonus over pay for comparable jobs in the mainland ... and the idea has caught on with the native Alaskans.



Test of . . . . . . Bretton Woods

By V. L. HOROTH

The International Monetary Fund and the International Bank for Reconstruction and Development, the twin institutions for which plans were laid at the Bretton Woods Conference in 1944, are back in the headlines. The Fund, after being put to a test by France's defiant action on the multiple currency scheme and the free gold market, gracefully retreated. Meanwhile the Bank is all but retiring temporarily from business. Its organizers have completely misjudged the realities under which a bank of that sort must operate; considering the magnitude of the ERP Program, they have, besides, grossly miscalculated the job of rehabilitation that has to be undertaken.

Their Functions and Powers

As many of our readers will recall, the organization of the Fund and of the Bank was hailed as the beginning of a new era in international financial cooperation. The Fund was given two major tasks: (1) To develop new rules of international monetary behaviour. There were to be no competitive currency devaluations or discriminatory multiple currency schemes. To enforce the rules, the Fund was endowed with the power to invoke sanctions against any member country, the monetary manipulations of which were a threat to others. (2) To promote exchange stability by helping the member countries to meet temporary deficits in their international balances of payments. On the other hand, the International Bank was to render long-term financial assistance to its member countries for the purpose of rehabilitating their industries or developing their resources. Through its loans, the Bank was to create an international climate that would encourage the flow of private funds for investment.

To what extent have the twin Bretton Woods institutions discharged the duties assigned to them? Their combined resources (on the basis of established currency parities) were nearly $10 billion as of the end of 1947, of which about $1.4 billion was in gold and about $1.6 billion in dollars. We understand that the two institutions now employ over 700 people. The fund has been in operation for nearly one year. It is reported to have sold about $500 million of foreign exchange (almost entirely U. S. dollars) to its members. A partial list of the transactions is given in the accompanying table. Since the members may borrow only a quarter of their quotas in any one year, the Fund's operations in 1948 may be expected to be as large as in 1947, unless, of course, Canada and Great Britain decide to make full use of the Fund.

The International Bank, which has been in operation for more than a year and a half, has thus far made contracts for four loans aggregating $497 million (see table for details). It still has about $500 million in cash, a part of which is expected to be used in the near future for extension of further credit, probably to a Latin American country or Iran. But as Mr. Eugene R. Black, U. S. executive director of the Bank, has declared, chances that new money will be raised in the market between now and next summer are extremely slim.

What the Critics Say

The critics of the Bretton Woods institutions, many of whom may have been prejudiced against them from the very start, argue that up to now the operations and the leadership of the Fund and the Bank have been disappointing. They point out that the Fund authorities have been inclined to take the easy way out and simply condone the actions which various countries have forced upon them.

To begin with, they are especially critical of the Fund's having accepted one year ago the then-current exchange rates as *the initial rates* in spite of its having been well known even at that time

International Monetary Fund Currency Sales in 1947*

Sales to	Amount	Date	Full Quota	Drawable Annually
France	U. S. $25,000,000	May	$525,000,000	$131,250,000
	U. S. $25,000,000	Sept.-Nov.		
Netherlands	U. S. $ 6,000,000	May 22	$275,000,000	$ 68,750,000
	£ 1,500,000	May 22		
	U. S. $12,000,000	Sept.-Nov.		
Chile	U. S. $ 7,500,000	Sept.-Nov.	$ 50,000,000	$ 12,500,000
Mexico	U. S. $ 9,000,000	Sept.-Nov.	$ 90,000,000	$ 22,500,000
Denmark	U. S. $ 3,400,000	Sept.-Nov.	$ 68,000,000	$ 17,000,000
Turkey	U. S. $ 5,000,000	Sept.-Nov.	$ 43,000,000	$ 10,750,000
Great Britain	U. S. $60,000,000	Sept. 16	$1,300,000,000	$325,000,000
	120,000,000	Nov.		
	60,000,000	Nov.		
Total	$433,000,000			
	£ 1,500,000			

*—Up to the end of November, 1947.

that these rates were out of line with the internal purchasing power of the respective currencies. Had the Fund insisted then and there upon revaluation to "a realistic level," they say, it would have been possible to relax exchange controls; exports and private trade would have been encouraged, and the deficits in the international payments of Western European countries would have been generally smaller. Postponing action on the overvalued currencies, the critics of the Fund argue, has tended to freeze import controls and export subsidiaries and has encouraged over-importing, thereby contributing to the shortage of dollars.

Half-hearted Measures?

Other Fund decisions are also claimed to be half-hearted, passive measures intended not to antagonize anybody. Yet they may prove troublesome in the future. The Fund, for example, approved multiple currency schemes in Italy, Ecuador, and Chile(*) although the drafters of the Bretton Woods had strongly objected to them. In Italy, a free market in which the lira is allowed to fluctuate freely in terms of foreign currencies (except sterling) was permitted, the Fund defending its action by quoting the necessity of applying "extraordinary measures," where "particular difficulties" are faced by member countries.

Original Firm Stand

Originally, the Fund authorities took a very firm stand on the member countries' selling newly mined gold in free gold markets at higher than statutory prices. This ruling was, however, circumvented when the producers, with the tacit approval of local authorities, began to sell gold concentrates at as high a price as the traffic would bear. But when Canada, faced with a shortage of U. S. dollars, decided to pay a subsidy to the producers of gold, the Fund approved, on condition that members consult first with the Fund. Canada has now two prices of gold in terms of the Canadian dollar. This is another case where realities forced a violation of the charter provisions.

But the most disturbing, in the eyes of the critics, was the Fund's attitude in the case of the French franc devaluation. The Fund had nothing against it as such, although it involved a currency devaluation far in excess of the allowable 10 per cent. But it disapproved the establishment of the free market for gold and dollars, as well as the multiple currency rate scheme (although somewhat different multiple currency schemes were condoned in the case of Italy and Latin America). Beyond that, the Fund did nothing about the French action. No sanctions were applied.

The Fund's inaction has been interpreted in two ways. (1) To some people it means that any country may, from now on, take almost any action it sees fit in respect to its currency, with no disciplinary action. The British are particularly pleased, since, should they decide to devalue the pound sterling, they would no longer feel bound by the disapproval of the Fund's directors. They would simply follow the French example. (2) By the same token, other people feel that the Fund, by its refusal to exercise its supra-state powers, as Mr. Paul Einzig expressed it, "is accepting the limitations of its powers, and no longer harboring ambitions that were in the mind of its authors." And, the critics ask, if everybody does what he pleases anyhow, what reason is there for the Fund's existence?

The chief criticism aimed at the Bank has been that, like the Monetary Fund, it has failed to take the initiative in tackling the problems of rehabilitation and development, and that it has been overcautious. The Bank's failure to extend any assistance to Italy, leaving the job to the Export-Import Bank, is cited as an example.

The Marshall Plan

It is also being pointed out that there is really no need for an expensive organization like the International Bank, now that practically all the requirements that Western Europe may have, will be financed under the Marshall Program. The Bank itself has recognized this and has decided to wait with Western

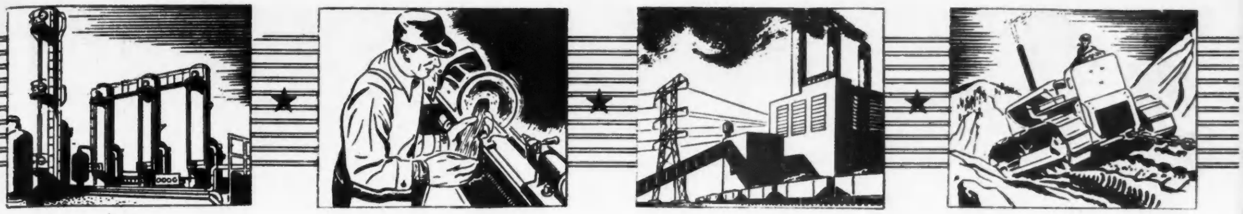
(Continued on page 613)

(*) In Chile and Ecuador, theFund merely sanctioned long standing practices. Chile has now four exchange rates: Government, 19 pesos to the dollar, preferential, 25 pesos, ordinary, 31 pesos, and finally free, around 50 pesos; each type of international transaction is assigned one of the four above rates.

International Bank Loans Authorized in 1947

Country	Amount			
France	$250,000,000	May 9	3¼% plus 1% commission	30-yr. loans (1977). Repayment begins in 5 years.
Netherlands	125,000,000	Aug. 7	3¼% plus 1% commission	25 years (1972). Repayment begins in 5 years.
Denmark	40,000,000	Aug. 12	3¼% plus 1% commission	25 years (1972). Repayment begins in 1953.
Luxembourg	10,000,000	Aug. 28	3¼% plus 1%	25 years (1972). Repayment
	2,000,000(b)	Aug. 28	commission	begins in July, 1949.
	$497,000,000(a)			

(a)—Unused balance for commitments was $252,000,000 on Oct. 31, 1947.
(b)—Equivalent of $2 million in Belgium francs.



1948 Special Re-appraisals of Values, Earnings and Dividend Forecasts

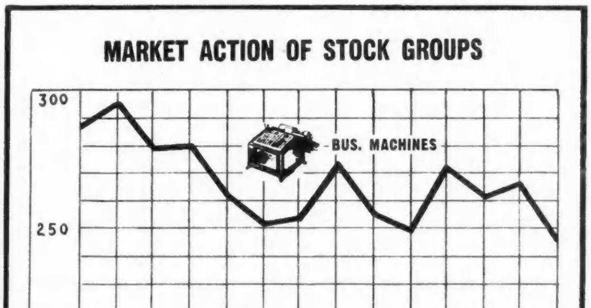
★ ★ ★

Prospects and Ratings for Building Shares, Electrical, Railroad, Farm and Office Equipments

Part II

The break in commodity prices, heralding a turning point in the postwar price inflation, forcefully calls to attention that 1948 is likely to be a year of uncertainty as well as challenge to business and industry.

While economic fundamentals continue strong, the new developments confront business with problems which it has not had to face for many years, not the least of them a return to more competitive business conditions and the possibility of some downtrend in overall business activity while price correction proceeds. It is a prospect that tends to inject a good deal of caution, if not conflicting thinking, about the course of our economy in the months to come.

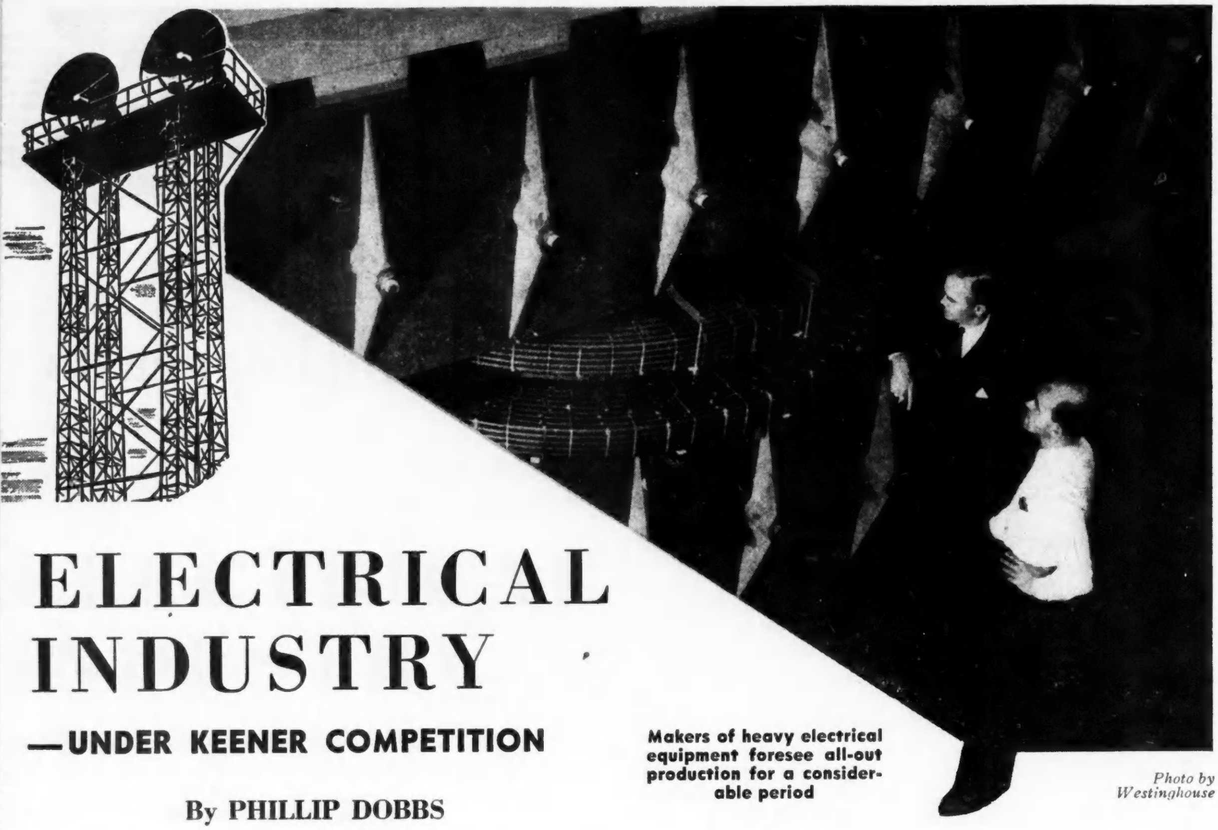


To establish and maintain a constructive investment program under current and prospective conditions, close and continued scrutiny and interpretation of fundamental trends is a prime requisite. Only by recourse to reliable facts and trained judgment can the investor protect his position. From a stock market standpoint, the year ahead may be a difficult one, perhaps full of contradictory movements and reactions. All the more, such a prospect makes it imperative to keep informed and recognize trends in the making.

To assist our subscribers in arriving at sound investment decisions, The Magazine of Wall Street presents its Security Appraisals and Dividend Forecasts at six months intervals, in addition to its regular coverage of important developments. By this method, the maximum number of industries are periodically reviewed on the basis of all available information, supplemented by statistical data for ready comparisons. Additionally, brief comments on the status of each company listed are presented.

The key to our ratings of investment quality and current earnings trends of the individual stocks—the last column in the tables preceding our comments—is as follows: A+, Top Quality; A, High Grade; B, Good; C+, Fair; C, Marginal. The accompanying numerals indicate current earnings trends thus: 1—Upward; 2—Steady; 3—Downward. For example, A1 denotes a stock of high grade investment quality with an upward earnings trend.

Stocks marked with a W in the tabulations are recommended for income return. Issues regarded as having above average appreciation potentials are denoted by the letter X. *Purchases for appreciation should of course be timed with the trend and investment advice presented in the A. T. Miller market analysis in every issue of this publication.*



ELECTRICAL INDUSTRY

—UNDER KEENER COMPETITION

Makers of heavy electrical equipment foresee all-out production for a considerable period

Photo by Westinghouse

By PHILLIP DOBBS

First quarter interim reports of electrical appliance manufacturers and producers of heavy equipment are likely to reveal somewhat divergent trends in the making. Furthermore it is quite possible that the spread between some of the divisions in this industry may widen as 1948 progresses. This is because while capacity operations are indicated for several years to come by makers of large generating equipment of one kind or another, production of small motors and household appliances in many cases has reached the stage where supply and demand is now pretty well balanced or will become so very soon. In the latter event, the impact of rising competition, already noticeable towards the end of last year, will be more keenly felt from month to month, although the more strongly entrenched concerns should feel its influence less than numerous others in the field.

Order Backlogs Heavy

Until the present huge expansion programs of industries and utilities have at least neared completion, and the booming demand for diesel-electric powered engines by railroads and other enterprises subsides, manufacturers of heavy electrical equipment foresee nothing but all-out production in the offing for an indefinite period. Backlog orders in this branch of the industry are continuing to pile up, and as often a year or more is required to complete construction of the large and highly complicated units, the uptrend in unfilled orders is apt to remain rather steady. The length of time needed before deliveries and to complete work once started also creates a high degree of firmness to orders when once placed, thus enhancing prospects for stability of manufacturing operations. In other words, if a recession in general business activity should occur, makers of heavy electrical equipment should suffer relatively little at least for some time to come.

So technical and involved are the specifications for such items as generators for the big power dams, turbines for hydro installations, diesel and gas operated units and giant locomotives, that profit margins on this type of work generally are quite liberal. Additionally, in times like the present when cost trends are upward, contracts often include escalator clauses to assure adequate profits. To secure the best that science and experience can supply in this field, it is natural that leading concerns such as Westinghouse Electric and General Electric are awarded the bulk of large contracts. Indeed, about half of the business of these large companies involves production of heavy electric equipment. The confidence with which these leaders view the outlook is shown by their vast expansion programs since VJ Day; in spite of this GE announces that its facilities for diesel-electric generating units are booked solid through 1951. Also, expansion plans of the utility industry envisages outlays of around $5 billion during the next five years or so, an all time record. With at least a fair prospect of more ample supplies of steel and copper during 1948, and barring work stoppages, all these demand potentials point to excellent business and profits as far as heavy electrical equipment is concerned.

With the number of electrified homes topping 23 million in 1947 and with (*Continued on page* 610)

Position of Leading Electrical Stocks

	Order Backlog ($ Million)	—Net Per Share— 1946	1947	1947 Div.	1947-48 Price Range	Recent Price	Price-Earnings Ratio	Dividend Yield	Investment Rating	COMMENTS
Apex Electrical	....	$1.17	$5.00 E	$ .20	11⅜- 7¼	$ 9	1.8	2.2%	C3	Important producer of washers, ironers and vacuum cleaners. 1948 net may not equal last year but conservative dividend safe.
Black & Decker X	........(b)	4.70	5.32	2.50	36 -25	30	5.6	8.3	C+2	Has large backlog orders for power driven hand tools. Outlook bright and dividend well backed by earnings.
Carrier Corp.	21.7	.20	3.44	Nil	21½-12⅛	16	4.7	....	C+2	Substantial gains in air-conditioning equipment sales likely to be repeated in 1948. Capital needs may still preclude dividend on common.
Cornell-Dubilier	....	2.07	1.87	.80	20⅞-11	11	5.9	7.3	C+2	Expanding demand for electronic circuits favors prospects, for facilities have been enlarged. Dividend appears stable.
Cutler-Hammer X	....	2.43	5.00 E	1.75	30½-18½	24	4.8	7.3	C+1	Sharp uptrend in volume and profits should hold. Good cost controls indicated. No change in dividend likely.
Emerson Electric	31.0	def1.02	2.89	1.05	17 - 9¼	13	4.5	8.1	C+2	Large backlog assures capacity operations for some time. Though inventory profits may no longer bolster net, dividend should be easily earned.
Eureka-Williams	....	1.09	2.05	.50	13⅝- 7½	8	3.9	6.2	C1	Improved materials supply should expand 1948 sales, aided by sizable backlog and enlarged facilities. Chance for dividend improvement.
General Electric X	750.0(a)	1.49	3.00 E	1.60	39⅞-32	34	11.4	4.7	A1	High rate of incoming orders brightens outlook. Another record breaking year perhaps in store. Expansion program may limit dividends.
Master Electric	10.0	1.72	4.00 E	2.40	26⅜-13⅝	21	5.2	11.4	B1	Profit margins widened by rising volume. Promising outlook for current year. Liberal dividend seems stable.
Maytag	....	1.26	3.00 E	.75	14¼- 7¼	10	3.3	7.5	C2	Last year's record sales level may continue at least through first half year. Fair chance of more liberal dividends.
McGraw Electric X	....	4.64	6.50 E	3.50	45¾-35	38	5.8	9.2	B1	Introduction of new lines and improved toaster likely to swell volume and net earnings. Dividend status amply protected.
Noma Electric	....	2.77	4.90	1.00(x)	20½-11	17	3.5	5.9	C2	Company's fiscal year to end June 30 should beat all former records. Margins widened by increased sales. Dividend strongly assured.
Servel	....	.67	1.20	.30	16⅞-10⅛	11	9.2	2.7	C+1	Probable improvement in sales and modest gain in earnings during 1948. But small dividend not likely to be increased.
Square D X	....	1.96	3.00 E	1.30	18⅝-13¾	17	5.7	7.6	B1	Strong demand for electric control devices supporting sales and profit potentials. Some chance of an improvement in dividend rate.
Sunbeam	....	2.42	6.37	2.00	35¾-26	30	4.7	6.6	B2	Established trade position sustaining record sales of small appliances. Outlook favorable for 1948. Dividend undoubtedly secure.
Sylvania Electric	....	1.97	2.25 E	1.40	28½-18¾	19	8.4	7.4	B2	Strong demand for company's specialties, including fluorescent lighting, indicates continued prosperity during 1948. No change in dividend.
Westinghouse Electric X	715.5	.68	3.50 E	1.25	31 -22½	26	7.5	4.8	A1	Expanded facilities and large backlog could raise volume and earnings during current year. Conservative dividend well assured of stability.
Weston Electric Instrument	....	7.10	4.50 E	2.00	55 -30	31	6.9	6.4	B2	Continued ample demand for specialties indicates probable continuation of good earning power. No change in dividend likely.
York Corp.	16.3	1.37	2.18	.30	16¾-10½	12	5.5	2.5	C+2	Company benefitting from heavy demand for output. 1948 earnings may equal those of last year, but capital requirements may permit no dividend increase.

(x)—Plus 5% Stock.

(a)—Order Backlog on heavy equipment only.

(b)—January 27, 1948, unfilled orders were reported sufficient for an entire year's business.

E—Estimated.

★ ★ ★

Promise vs. Results for RAIL Equipments

By GEORGE MERTON

With the biggest order of backlogs since 1923, the railroad equipment industry is well on the road to establishing record sales. Whether this goal will be realized depends upon several factors, mainly the availability of supplies. Whether earnings will keep pace with sales is still another matter. An analysis of the peculiar influences affecting this industry appears in order, especially in view of the highly selective market action of rail equipment shares within recent months.

The immediate picture facing the industry is bright. As of January 1, 1948, unfilled orders for freight cars called for 105,112 units, compared with only 63,829 the previous year. Producers are tackling this backlog at the current rate of approximately 10,000 units a month, a considerably higher rate than a year ago. The industry is aiming at a monthly output of 14,000 units—if it can get sufficient steel. Shortages of steel continue to be a sore spot, being mainly responsible for the industry operating at only about 50% of capacity last year. This situation is gradually improving, although the supply is still far from satisfying demands.

Repair by Railroads

Further aggravating the steel shortages for the construction of new cars is the fact that the railroads themselves have been allocating a considerable amount of steel for repairing old cars which have been needed so badly. However, this situation is tending to bring about its own corrective measures, since the cost of continually repairing old cars is becoming heavier and heavier; thus, the railroads will be more disposed to buy new cars. Since the price of scrap is so high, an additional impetus is given to the dismantling of worn out units and replacing them with new ones.

Car Mortality

That these factors are exerting their influence is borne out by the fact that the railroads are currently believed to have at least 8,000 fewer freight cars on the lines than they had a year ago, in spite of over 68,000 new cars being built last year. Evidently old cars broke down and were retired quicker than they could be replaced. With one-fifth of all cars over thirty years old, a wide potential market is afforded, further supplemented by European needs estimated at 200,000 units.

How long will the heavy accumulated demand last? Estimates vary from two to three years, depending upon the monthly production rate attained, the supply of steel, and the ability and willingness of the railroads to buy. Although freight car loadings last year were the highest since 1930, even greater than during World War II, a further increase of 3.5% is expected for the first quarter of this year over the similar period last year. The springtime car shortage may be almost as bad as last autumn. This condition is gradually bringing about a change in thinking concerning the country's freight car needs. There is a growing realization that our expanding national economy calls for a considerable permanent increase in the total fleet of cars operating. Secretary Krug has stated that the national need is for 900,000 new freight cars in the next five years. Whatever the estimates, there is no disputing the fact that car builders have a big job ahead and 1948 should be an active and profitable year.

Under ordinary conditions, the highly specialized nature of the industry, with very heavy overhead and normally cyclical demand, tends to restrict earning power. Profit margins ordinarily are not wide. Extensive conversion to war work during the latest conflict stimulated production of freight cars by the railroads themselves; there are no indications of this practice being abandoned. Furthermore, new companies, such as Bethlehem Steel, have entered the field. The established companies have sought to diversify their operations by developing other products. In certain cases this has been a valuable adjunct to their earning power. But in many cases the new products did little more than filling out sales gross and carrying some of the overhead.

In an effort to check the rise in basic costs, pro-

ducers have expanded and modernized manufacturing techniques, adopting such things as assembly-line methods in certain production, autogenous welding etc. These should be of material benefit in handling the large volume of orders on hand, giving an additional boost to the usually good-sized profits under capacity operations.

The passenger train car business, after the dismal years of the depression, received a tremendous shot in the arm through the development of the light-weight streamlined unit which has practically revolutionized passenger train travel. Having proved their popularity and revenue possibilities, these cars came into great demand. Shortages of steel, small electric motors, and air conditioning equipment prevented full production of passenger cars but these are gradually easing. Although passenger service, of minor importance (*Con. on page* 616)

Position of Leading Rail Equipment Companies

	Order Backlog ($ Million)	—Net Per Share— 1946	Estimated 1947	1947 Div.	1947-48 Price Range	Recent Price	Price-Earnings Ratio	Dividend Yield	Investment Rating	COMMENTS
American Brake Shoe X	$27.3	$3.51	$3.90	$2.40	50 -36	$40	10.2	6.0%	B1	Through aggressive diversification program, is only 50% dependent on railroads. Earnings trend continuing favorable. High quality stock is good dividend payer. 60c quarterly dividend amply covered.
American Car & Foundry X	270.0	5.26	5.00	3.00	54⅞-36	39	7.8	7.7	C+1	Second largest car builder, with appreciable other interests. Earnings to be well maintained. Annual dividend of $3 paid during last three years will probably continue.
American Locomotive	96.0	3.04	1.70	1.65	30⅜-18⅝	20	11.7	8.2	C+2	Concentrating on production of diesel units. Full earning power still to be achieved. 35c quarterly dividend may barely be covered but will likely be paid.
Baldwin Locomotive	......	2.63	1.00	1.00	24⅜-12⅞	13	13.0	7.7	B2	Expanding widely in the diesel field. Other interests sizable. 1947 decrease in earnings partially offset by favorable longer term prospects. 50c semi-annual dividend barely earned.
General American Transp. X	61.0	3.45	6.50	2.75	58¾-48	52	8.0	5.3	B2	Strongly situated owner-operator of tank-refrigerator cars, with other important profitable lines. Outlook good. Good quality stock pays extras to 75c quarterly dividend.
General Railway Signal X	......	.23	.90	1.00	31½-19	25	27.8	4.0	B1	Smaller manufacturer of signals, switches, etc. Longer term prospects promising. 25c quarterly dividend will probably continue, with greater coverage in sight.
Lima-Hamilton*	70.0	1.63	1.60	.60(x)	12⅝- 8⅞	9	5.6	6.7	B2	Third largest producer of steam locomotives, with diesels and other interests looming large. Financial position sound. 15c quarterly dividend appears well protected.
New York Airbrake	......	3.65	6.19 A	3.50	46½-32⅛	36	5.8	9.7	B2	Does 25-30% of all air brake business. Substantial business in sight. Earnings to be well maintained. Further liberal extras to 50c quarterly dividend indicated.
Poor & Co. "B"	......	2.55	3.00	1.50	19½-11¾	14	4.7	10.7	C+2	Concentrates on sale of products for track construction and maintenance. Earnings outlook moderately favorable. Other extras possible to well protected 25c quarterly dividend.
Pressed Steel Car	54.4	def..61	.97 A	Nil	16 - 8⅞	9	9.3	......	C+2	Third largest freight car builder—most speculative in this field. Earnings outlook unimpressive. Early resumption of common dividend payments not likely.
Pullman X	375.7	.64	3.00	3.00	61½-47¼	48	16.0	6.2	B1	Largest builder of freight and passenger cars. Owns valuable subsidiary. Well sustained earnings indicated. Good quality stock pays 50c quarterly, plus year-end extras.
Superheater	......	2.65	2.00	1.60	24¼-17⅛	19	9.5	8.4	C+2	Manufactures steam superheaters and other boiler equipment. Outlets varied in several industries. Earnings outlook moderately favorable. Other extras to 25c quarterly dividend possible.
Symington Gould	......	.31	.05	.25	10½- 5½	6	120.0	4.2	C2	Manufactures cast steel railway equipment specialties. Competitive position secondary. Earnings outlook unimpressive. Future dividends uncertain.
Union Tank Car	......	3.30	3.75	2.50	38¾-30	35	9.3	7.1	B2	Largest tank car fleet operator. Continuation of past good record indicated but increasing competition possible. 50c quarterly dividend will probably receive further extras.
Westinghouse Airbrake W	70.0	3.06	4.25	3.00	38¼-27¼	34	8.0	8.8	A1	Leading maker of air brakes, signaling, and control equipment. Earnings prospects quite favorable. Good dividend payer. Additional extras to 50c quarterly dividend indicated.
Youngstown Steel Door	——	1.11	2.50	1.00	21⅝-15	16	6.4	6.2	B1	Manufacturer of patented freight car doors and sides. Well maintained operations in sight. 25c quarterly dividend may receive other extras.

(x)—Announced annual rate.
A—Actual earnings reported by the company.
*—Represents a consolidation of Lima Locomotive Works and General Machinery Corp. effected October 1, 1947; 5⅜ new shares were issued for each share of Lima Locomotive Works; while General Machinery Corp. stock was exchanged on a share for share basis.

ANOTHER GOOD YEAR FOR . . .

FARM EQUIPMENTS?

Photo by John Deere

By FRANK R. WALTERS

Farm equipment sales last year reached an estimated all-time high of $1.5 billion, which is an increase of 50% over the previous year. Domestic sales accounted for around $1.2 billion, exports for $300 million. Indications are that this year will be an even better one.

Few industries enjoy the pleasant prospects that face the manufacturers of agricultural machinery. They play an important role in speeding world recovery by furnishing the means for alleviating the critical food shortages that prevail in many parts of the world. Not only American production of food products but of farm equipment as well is vitally needed to achieve this goal.

Basic Demand Factors

Mechanization on farms is in full swing, with no interruption in sight. Extensive use of equipment during the war, combined with limited production, has resulted in a substantial portion of farm machinery being either worn out or over-age. This situation would find a good measure of correction even during normal times; with farm income at its highest level, the impetus to correction will be greater than ever. In this connection, it is interesting to note that during the years 1925-40, domestic sales of farm equipment averaged 8.8% of annual average cash farm income, a figure that dropped considerably lower during war years. The farmer's mechanical and motorized equipment has not increased in proportion to his general prosperity, leaving a great deferment to be made up. While some urgent needs have been met, the demand remains heavy and pressing.

While enjoying high prices for the products they sell, farmers have also had to pay higher prices for the goods they buy, and there has been a tripling of pre-war wages paid to farm workers. The latter further accelerates the trend towards mechanization. The fact that during the war, farmers were able to produce 33% more with 10% less help than before the war is expected to serve as powerful stimulant to the adoption of powered equipment to combat increased costs. Hence the stage is set for farm equipment manufacturers to chalk up new production and sales records in the months ahead.

The degree of excellence of performance will depend upon several factors. Perhaps the most important of these is raw materials. With the steel situation still tight, producers of agricultural implements have been unable to obtain all the steel they would like. Amelioration of this condition is expected to be gradual, with steel allocations a distinct possibility. However, the urgent need for farm equipment, together with the fact that the industry uses up only 3%-4% of total steel production, should assure favorable consideration for farm equipment producers. Another possibility is interrupted production. This could be serious for individual companies, as demonstrated in 1946 when prolonged strikes paralized activities in certain plants. But in view of the seemingly more moderate attitude on the part of labor, no serious impediment to production is expected.

The dominant factor in power-farming is the trac-

tor. When one considers that a single tractor is the equivalent of five work animals, its appeal to farmers is readily evident. Continually improved and made more adaptable, tractors have largely displaced horses and mules on the farms. By 1950 it is estimated that farmers will be using 2,600,000 tractors, compared with only 1,500,000 shortly before the war and about 2,000,000 at its termination. In this field, the small-size tractors, most suitable for mechanizing small farms, are continuing their impressive sales uptrend. The major manufacturers have made large plant investments for the production of such units and are now believed to be in full operation. International Harvester alone is expected to turn out 50,000 units of its small-sized "Farmall Cub" a year.

New Implements

Other farm implements that are meeting with a good reception are new and improved cotton and corn pickers, automatic hay balers, and numerous automatic controls for attachments—all of which will not only lighten farm work but also reduce farm costs.

The reader may wonder at the competition in this industry, which has such a ready market. It has already attracted a new-comer—Graham Paige with its Rototiller which may become a factor to reckon with in the lowest price tractor field. Ford Motor Company is believed to have stepped up its production of farm tractors to an estimated 100,000 last year. However, competition in this industry is not excessive. The larger companies have well established networks of dealers and factory branches; over a period of many years they have succeeded in obtaining and maintaining the lion's share of the business, although some smaller concerns have also been able to sell their products successfully. The closely-knit nature of this business generally precludes too severe price competition.

Foreign Market Potentials

Although overshadowed by the large domestic market, the foreign market for agricultural machinery may become of increasingly greater importance. Canada may be expected to continue her role as our best customer and substantial shortages of equipment exist almost everywhere including prominently in South America and many European countries. In expanding foreign markets, however, the question of payment (dollar shortages) is coming increasingly to the fore.

In the long run, of course, the bulk of farm equipment sales will depend upon domestic farm income. This is expected to have reached an all-time high of $30 billion for 1947. Indications are that this year will see a decline of about 9%, to around $28 billion with final results determined by the trend of agricultural prices. While these lately have weakened perceptibly, Government support will likely hold the decline within bounds. Even at lower price levels, farm cash income should compare very favorably with the best prewar years. Furthermore, the farmer has considerably improved his financial position in the wake of six years of record production at high prices. By January 1, 1947, farmers all over the country had salted away in the banks $15.1 billion. This was an (*Continued on page* 614)

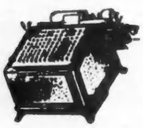
Position of Leading Farm Equipment Stocks

	Net Per Share 1942-45 Avge.	1946	1947	1947 Div.	1947-48 Price Range	Recent Price	Price-Earnings Ratio	Dividend Yield	Investment Rating	COMMENTS
Allis-Chalmers	$3.88	def$.14	$1.50 E	$1.60	42¾-30¼	$35	23.3	4.6%	BI	Leading producer of tractors, combines, etc. Higher prices, greater efficiency will considerably improve earnings. 40c quarterly dividend may be raised.
Avery, B. F.	1.33	.41	2.60	.75	16⅜-10½	13	5.0	5.8	CI	Smaller producer of farm equipment. Earnings outlook favorable. Working capital needs may keep dividends on conservative basis.
Case, J. I.	2.43	1.07	5.47	1.60	47 -29½	40	7.3	4.0	BI	Major manufacturer of tractors and farm machinery. Good caliber stock. Future prospects distinctly promising. 40c quarterly dividend may continue.
Deere & Co. X	2.92	2.46	3.90	2.00	46⅜-31	40	10.2	5.0	BI	Second largest manufacturer of farm equipment. Continued gains in earnings indicated. 25c quarterly dividend may be raised or receive further extras.
Gleaner Harvester	1.39	2.85	5.21	2.40	25½-18¾	23	4.4	10.4	BI	Smaller manufacturer of harvesting machines. Making good progress. 30c quarterly, plus further extras, indicated.
International Harvester X	4.67	3.91	10.07	3.65	95 -70	84	8.3	4.3	BI	Leading manufacturer of all types of farm equipment. Record sales in prospect. Conservative $1 quarterly dividend may be raised over longer term.
Minneapolis-Moline	1.02	1.52	5.81	Nil	15⅜- 7	14	2.4	......	CI	Smaller, marginal producer of agricultural machinery. Position improving but, pending recapitalization, common dividends uncertain.
Myers, F. E. & Bro.	3.22	3.58	5.62	3.00	56 -50⅛	51	9.2	5.9	BI	Leading manufacturer of pumps, sprayers, etc. Future favorable. Stock is a good dividend payer. 75c quarterly dividend will likely continue.
Oliver X	2.33	2.04	4.61	1.00	27½-17¾	24	5.2	4.2	C+I	Medium-sized manufacturer of farm equipment. Growth prospects favorable. But dividends may continue conservative due to working capital needs.

E—Estimated.

THE OUTLOOK FOR Office Equipments

By RICHARD COLSTON



In 1947, manufacturers of office equipment enjoyed their biggest year on record, both from the standpoint of dollar sales and physical production. And in spite of the fact that they operated at capacity, the year-end found their backlogs of unfilled orders ranging from six months to more than a full year's volume.

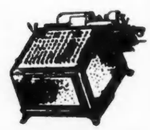
While indications of well maintained operations are evident this year, with the filling of the most urgent needs the industry is tending once more to assume its normal pattern. Much of current demand is for replacement; but technological improvements, on top of an increasingly greater interest in labor saving devices, provides a constant stimulant to production. Additionally, foreign markets are looming large in future potentials of the industry.

Faced with the greatly expanded needs arising from deferred demand and post-war industrial expansion, office equipment manufacturers have made extensive strides in fulfilling requirements. While the market for new equipment is still far from being exhausted, future production will be geared more to the replacement of existing equipment and the development of specialty lines. Since sales normally are highest during prosperous business years, office equipment manufacturers are continuing to enjoy good markets, further bolstered by the endless needs of all business organizations for record-compiling and record-keeping machines to handle the vastly increased paper work. Other favorable long term factors are the increasing need both in offices and factories for labor-saving and mechanical devices to offset rising wages and production costs; while a wide market is available for efficient machines to sell in the lower brackets, potentials for which have been scarcely touched.

In view of the wide fluctuations in sales of office equipment, uniform results cannot be expected. In the typewriter field, for instance, sales of standard models will conform more to replacement requirements, while portables may be expected to continue their upward trend in original sales. Also, the saturation point for accounting, bookkeeping, and calculating machines is much further away than for cash registers and adding machines.

Since wages account for a substantial portion of manufacturing costs, they have a vital and somewhat varying effect on earnings. The basic trend toward lower prices for certain items, such as typewriters and adding machines, tends to narrow overall spreads; but other business machines will probably continue to show wide, or only moderately lower, profit margins. Selling and overhead expenses, bulking large and being comparatively inflexible, exert a powerful lever on final profits. Although there are only a few companies in this industry, competition is keen. Selling prices are affected not only directly by the above factors but also indirectly through increased trade-in allowances and discounts.

Upward price adjustments in 1946 and 1947, combined with capacity production, enabled office equipment producers to more than offset the additional costs of labor, materials, etc., with the result that earnings last year picked up considerably over the previous year. The exceptional decline in earnings for Remington Rand was due to labor difficulties rather than a decrease in demand. No lessening of wage pressure is indicated for



the medium term future, a factor which in itself would be a somewhat limiting influence on the profits of all companies; however, improved manufacturing methods will provide a measure of relief, while concentration on special types of equipment, when the current general demand tapers off, will provide companies with more profitable items.

Foreign sales traditionally are an important consideration; in prewar years, exports accounted for 25%-40% of total industry revenues. After dropping to the vanishing point during the war, exports of office appliances recovered strongly to some $50,000,000 in 1946 and approximately double that sum in 1947. Dollar shortages in European countries are a restrictive influence on further expansion of foreign shipments; yet this is modified by the elimination of competition from German producers of office equipment and the considerable gain in exports to South and Central America. Recent developments whereby some 23 nations lowered tariffs at the beginning of this year should stimulate demand for most types of office equipment, with the United Kingdom the most important taker; and whatever benefits eventually will result from the Marshall Plan in rehabilitating Europe may further lift the ultimate export potential.

Long Term Growth Trend

Altogether, the long term growth trend in unit sales of office equipment is expected to continue. The price increases that have been put into effect have been moderate and have not encountered any noticeable sales resistance. Profit margins may narrow slightly for the first half of this year but volume operations from expanded facilities should result in good earnings. If margins are squeezed, another moderate increase in prices should provide adequate compensation. In the face of continuing good business conditions, and barring interruption of production schedules, the manufacturers of office equipment may well enjoy another year of record, or near-record, production.

Wider Potential Markets

Leaders in the industry feel confident that a higher level of demand for office equipment than before the war will continue after present urgent requirements have been met. Potential markets have been considerably widened by the development of new types of machines. Offices that have never used special devices are becoming keenly aware of the benefits to be derived from them. Leading companies claim that the productivity of office workers can be increased from 25% to as much as 300% by using new machines for standard office jobs. One company demonstrated how it was possible to reduce typing time from 17% to 78%. What these time-saving devices can mean to "cost conscious" executives is apparent when one considers that the ratio of office to factory workers has increased from one to nine before the war to one to four at present.

While certain factors in the industry are of the opinion that their wartime expansion will be sufficient to take care of all new business, many leading companies have embarked upon substantial postwar expansion programs. In spite of a 53% increase in gross plant area since 1941, International Business Machines is constructing a large new factory in Poughkeepsie, New York. (*Continued on page* 614)

Position of Leading Office Equipment Shares

	Net Per Share 1942-45 Avge.	1946	1947	1947 Div.	1947-48 Price Range	Recent Price	Price-Earnings Ratio	Dividend Yield	Investment Rating	COMMENTS
Addressograph-Multigraph	$1.73	$2.08	$5.99	$2.35	40¼-29½	$30	5.0	7.8%	B2	Produces widely diversified line. Unfilled orders large. Outlook favorable. 50c quarterly dividend may be supplemented by further extras.
Burroughs Adding Machine X	.65	.40	1.25 E	.75	16⅝-12½	13	10.4	5.8	B1	Leading manufacturer of numerous machines. Recent good earnings trend continuing. 15c quarterly dividend may be raised or receive other extras.
Felt & Tarrant Mfg.	1.68	2.02	2.50 E	2.00	26⅝-20	21	8.4	9.5	B—2	Smaller producer of adding-calculating machines. Outlook favorable. Continued liberal extras to 35c quarterly dividend indicated.
Int'l Business Machines X	3.80	7.48	9.50 E	3.43	140½-117½	127	13.4	2.7	A1	Leading producer of bookkeeping and accounting machines. Stock of semi-investment caliber. Still in growth phase. New stock on $1 quarterly basis.
National Cash Register	1.83	2.06	6.50 E	2.25	43¼-33	35	5.4	6.4	B2	Produces 90% of cash registers, plus other machines. Near-term outlook favorable. 50c quarterly, plus extras, indicated.
Remington Rand	1.18	3.56	3.25 E	.77½	20¼-12⅛	13	4.0	6.0	B1	Makes full line of office equipment, typewriters most important. Outlook favorable. 25c quarterly dividend expected to continue, plus small stock dividend.
Royal Typewriter	1.00	.30	3.49	1.55	24⅞-18⅞	19	5.4	8.2	B1	One of four largest typewriter producers. Earnings in uptrend. 40c quarterly dividend, plus moderate extras, indicated.
Smith, L. C. & Corona	3.10	2.69	5.57	2.00	35½-19¼	20	3.6	10.0	B2	Fourth largest typewriter maker. Well sustained earnings in sight. 50c quarterly dividend appears adequately protected.
Underwood X	3.13	2.66	7.00 E	4.00	58½-43½	48	6.9	8.3	A1	Major producer of office and business equipment. Earnings steadily increasing. Longer term outlook promising. Dividends should be well maintained.

E—Estimated.

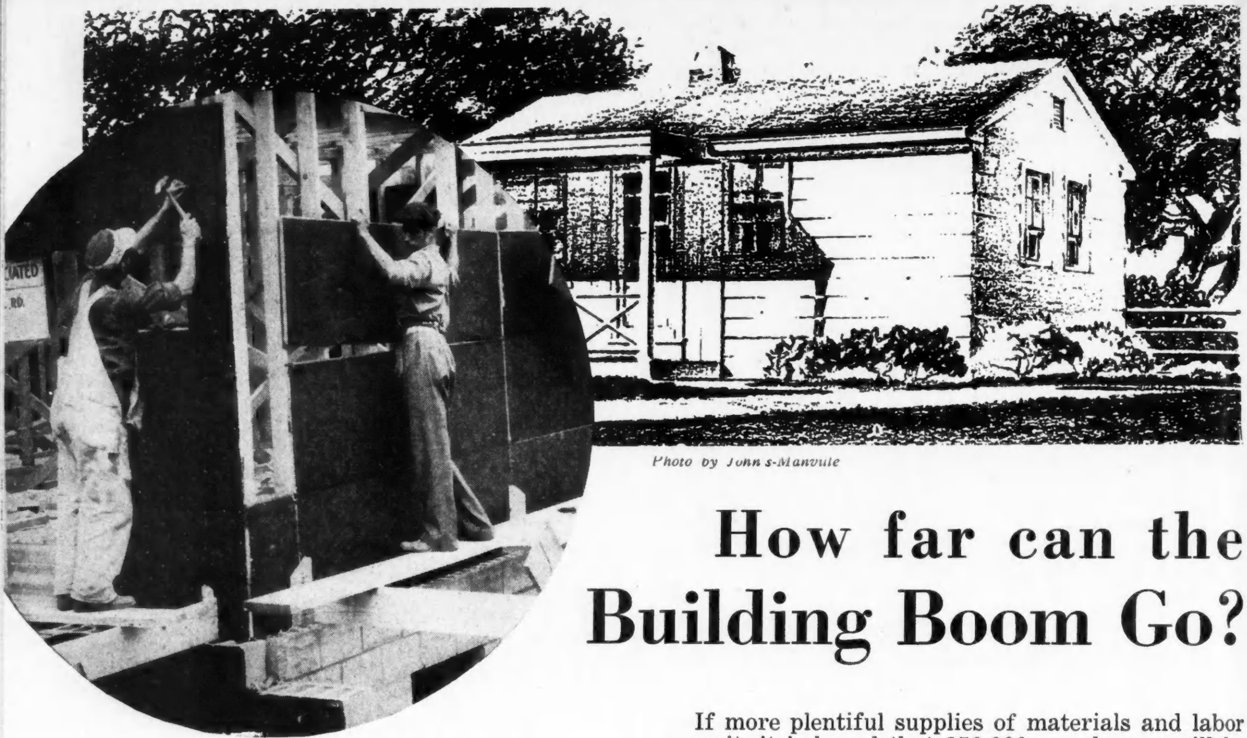


Photo by Johns-Manville

How far can the Building Boom Go?

By STANLEY DEVLIN

According to Government estimates, suppliers of building materials are likely to enjoy another record breaking year during 1948, with total new construction placed at about $15 billion. This would represent a gain of 18% over the construction volume of $12.8 billion achieved in 1947. As repairs, alterations and modernization could swell the total for the current year by perhaps another $5 billion, 1948 promises to be an exceptionally active period, enhancing sales and earnings potentials on a broad scale for the numerous components of the industry.

Volume Trend Upwards

While forecasts by the Federal Works Agency and F. W. Dodge Corporation are slightly less optimistic than the sources cited above, everyone seems to agree that total volume will continue to trend upwards. In this event, earnings of the leading companies should at least equal the highly satisfactory levels reached last year.

What seems to have sparked building activity into what appears a genuine postwar boom has been a widespread public acceptance of higher costs as a matter not soon to be ameliorated. Until midsummer of 1947, hesitation over soaring construction costs got the year off to a laggard start. Thereafter the huge pressure for additional homes and new industrial facilities proved irresistible and the race for new construction began in earnest. As things look now, there may be a slight rise of around 5% in building costs during the year but not enough to dampen enthusiasm appreciably. On the other hand, there is a possibility that some building materials may recede moderately in price, due to steps taken to expand production.

If more plentiful supplies of materials and labor permit, it is hoped that 950,000 new homes will be built during 1948 compared with 860,000 completed last year. At that, only the surface of deferred demand would be scratched because of the immense housing shortage, population increase, millions of marriages and doubled up families. Few industries potentially have a better assured outlook for prolonged activity than the building group provided that business in general remains at a high level and that the industry exercises restraint in the matter of costs and prices.

1948 Estimates

The Department of Commerce figures that private spending on home building may exceed $6 billion in the current year against $4.9 billion during 1947. Back in 1925, a previous high mark of $4.59 billion was established, though building costs in that year were much lower than at present. Outlays for private non-residential construction in 1948 may not vary much from the $3.3 billion spent last year, but industrial building may absorb a somewhat smaller proportion of the total. Federal, State and municipal outlays for public works are expected to expand to approximate perhaps $3.7 billion for the year.

For the first five weeks of 1948, the Engineering News Record figures that compared with a year ago, Federal construction has jumped 30% and undertakings by States and municipalities have risen by 65%. Waterways, bridges, highways and public buildings account for most of the activity mentioned of this class. In the industrial field, chemical and steel concerns lead in their outlays for additional facilities, and paper companies have a huge construction program under way. Total new capital made available for construction purposes during the first five weeks of 1948, according to the ENR, was 108% greater than in the same period of 1947.

With rent controls off on private new construction projects, the uptrend in mass production of

Position of Leading Building Materials Stocks

	Dollars Per Common Share									
	1942-45 Avge. Net	1946 Net	1947 Net	1947 Div.	1947-48 Price Range	Recent Price	Price-Earnings Ratio	Dividend Yield	Investment Rating	COMMENTS
Alpha Portland Cement	$ .51	$2.72	$3.00 E	$2.00	35 -24⅞	$27	9.0	7.4%	C2	Lack of foreign competition favors high level sales and fair margins in Eastern section served. Liberal dividend seems safe.
Amer. Rad. & S. S.	.55	.95	1.50 E	1.00	17 -11¾	13	8.6	7.7	C+1	Near-completion of expansion program and well sustained demand for company's specialties enhance 1948 outlook. Dividend secure.
Armstrong Cork	2.30	2.54	6.00 E	2.60	55 -38¼	43	7.2	6.1	B2	Entrenched trade position and insatiable demand for both floor coverings and cork items likely to sustain sales and earnings. Stable dividend.
Bruce, E. L.	3.47	1.78	9.76	1.75	49¼-32	47	4.8	3.7	B2	Leading producer of hardwood floors, enjoying record demand for output. Fair chance of increased dividend.
Celotex X	.73	4.17	6.59	1.12½	32⅝-19⅞	25	3.8	4.5	B1	Well situated to benefit from production of low cost bagasse and gypsum wallboards. Sharp uptrend in earnings should hold during 1948. Dividend improvement possible
Certainteed Products	.67	2.36	3.50 E	.60	21¼-11⅝	15	4.3	4.0	C1	Impressive demand for asphalt shingles and gypsum products brightens prospects for current year. Capital needs suggest conservative dividend.
Congoleum-Nairn	1.33	1.89	4.00 E	2.00	33¼-23½	30	7.5	6.6	B2	Record sales of linoleum likely to continue in 1948, aided by plant expansion. Net earnings should amply cover current dividend rate.
Crane Co. X	1.80	3.41	4.50 E	2.60	40½-26¼	31	6.9	8.4	B1	Continued strong demand for pipes, plumbing and heating devices should hold earnings at satisfactory level. No change in dividend likely.
Devoe & Raynolds A	1.51	3.50	5.62	1.60	31⅞-20⅞	23	4.1	7.0	B2	Combined production and distribution facilities in paint field augur well for sustined prosperity. Earnings warrant higher dividend.
Flintkote X	1.52	2.82	6.72	1.50	39½-24	33	4.9	4.5	B1	New construction plus repair demand should sustain high level sales. Modernized plant operations a favorable factor. Dividend improvement possible.
Holland Furnace	1.65	2.21	3.25 E	2.00	31¼-21⅛	22	6.8	9.1	B1	Uptrend in sales and earnings in 1947 should continue, due to larger home construction, provided steel supplies increase. Stable dividends probable.
Johns-Manville X	1.97	1.90	3.17	1.40	46½-35	36	11.4	3.9	A1	Leading producer asbestos products, well integrated and with $50 million expansion program nearing completion. Dividend amply earned.
Lehigh Portland Cement X	1.53	3.18	3.50 E	1.50	44½-30½	33	9.4	4.6	C+2	14 well located plants promote high level sales. No let-up in demand for cement in sight. Conservative dividend well assured of stability.
Lone Star Cement X	2.93	5.58	6.67	4.25	79¾-58⅛	62	9.3	6.9	B2	Above average stability achieved by diversified markets in U. S. and Latin-America. Outlook warrants confidence in well sustained earnings. Dividend safe.
Masonite	2.16	3.67	7.30	2.00	63½-39½	54	7.4	3.7	B1	Largest producer of hardboard with favorable prospects for good earnings. Dividend secure but likely to remain on conservative basis.
National Gypsum X	.50	2.21	2.75 E	.75	25½-14⅝	17	6.2	4.5	C+1	Ranks second in its field. Large expansion program likely to increase sales and stabilize profits. No change in dividend rate likely.
Otis Elevator	1.06	2.36	3.25 E	1.35	33⅝-24	29	8.9	4.6	B1	Handles about 70% of business in its field. Large backlog exceeds year's sales. Moderate earnings uptrend probable but no change in dividend rate.
Penn.-Dixie Cement	.54	2.28	2.50 E	1.25	24⅜-13½	16	6.4	7.8	C2	Heavy demand at satisfactory prices enhances outlook. Ample earnings indicated in current year, and dividends should be maintained at current rates.
Pittsburgh Plate Glass	1.46	1.92	3.25 E	1.70	42⅞-32¼	36	11.1	4.7	A1	Large sales of glass to automotive and building industries probable through 1948, along with substantial paint volume. Stable dividend assured.
Pratt & Lambert	2.19	4.16	5.00 E	2.95	48 -35	39	7.8	7.6	B2	Unabated demand for paints and varnishes should sustain high level volume and satisfactory earnings. Ample support for dividend indicated.
Ruberoid	2.17	6.73	10.00 E	2.75	68¼-42½	57	5.7	4.8	B1	Output of asbestos and asphalt products has established long unbroken dividend record for decades past. Outlook above average bright.
Sherwin Williams	3.14	5.12	7.08	3.12½	78½-65	69	9.8	4.6	A1	Largest producer of paints and varnishes, enjoying record demand and with improved supply status. Late dividend increase likely to hold.
Thompson Starrett	def.49	.42	def.69(a)	Nil	7¼- 3¾	4	......	......	C2	Large building contractors with drab earnings record. Continued deficits have precluded dividends. New management may add to speculative appeal.
U. S. Gypsum X	3.57	9.90	9.50 E	4.00	107¾-86	95	10.0	4.2	A1	Long established and dominant unit in field. Outlook enhanced by huge demand and sizable additions to facilities. Betterment of dividend possible.
Walworth	1.24	1.25	1.50 E	.75	13½- 7⅞	9	6.0	8.3	B1	Continued heavy demand for valves and pipe tools a favorable factor. 1948 earnings may expand moderately but dividend probably will not be increased.
Yale & Towne X	2.97	2.12	4.00 E	1.60	45 -28⅛	29	7.2	5.5	B1	A leading maker of locks and hardware, enjoying bright prospects for current year. Dividends paid since 1899. Current rate of payments seems stable.

(a)—For fiscal year ended April 30, 1947; for 6 months ended October 31, 1947, a deficit of $.38 was reported. E—Estimated.

homes on a rental basis has become notable. Even while still in the blueprint stage, apartments and residences are being rapidly leased or sold. This trend has stimulated contractors into broad scale operations that formerly would have been considered fantastic. Quite clearly, the much heralded wave of optimism over prefabricated houses, on the other hand, has fizzled out substantially. Where Washington last year set a goal of 200,000 for the prefabs, only 36,000 were actually sold, and reports are that the Government has already cancelled a number of contracts obligating it to take unsold units off the manufacturers' hands.

Restrictive Factors

There are also certain restrictive factors in the industry's 1948 progress outlook that must not be ignored. Shortage of essential materials, high prices, plus scarcity of labor, inefficiency of workers and hampering building codes may continue to plague contractors for some time to come.

As for materials bottlenecks, lumber continues to be in short supply, although producers turned out 57 billion board feet during 1947, a record amount since 1929. Lumbermen predict that they will do even better in the current year, so that there is a possible chance that the sharp rise is prices for this essential material in recent months may soon level off or even develop a reverse trend. As costs for lumber now account for about 20% of the total in residence construction and count heavily in all other building fields, any prospect of more ample supplies and price stability is an important consideration.

Some improvement in steel supplies is looked for during the current year, though a desirable balance with demand can hardly be expected. Whatever betterment results, will aid the construction of new utility facilities, bridges, industrial plants and urban buildings. Additionally, manufacturers of plumbing and heating equipment, now hard pressed for pipe and sheets, could expand volume readily if materials become more plentiful. The same applies to producers of heat regulators, air conditioning, partitions and elevators, not to mention hardware.

Outlook for Cement

The outlook for the cement manufacturers is enhanced by the immense demand for their products for every kind of construction work. Shipments during 1948 are expected to top 185 million barrels, although mill stocks a few months ago were at a level of only 8 million. The business is highly integrated by the large concerns, and extensively mechanized. The practical elimination of foreign competition—for the time being at least—is a favorable factor for operators on the Eastern Seaboard. For some time to come the cement manufacturers should enjoy above average prosperity, and in the event of a business recession, orders should pour in from public projects involving road building. Hence over the longer term, the outlook for good business appears bright. Availability of multiwall bags and freight cars, though, is an element in the equation that may prove troublesome at times.

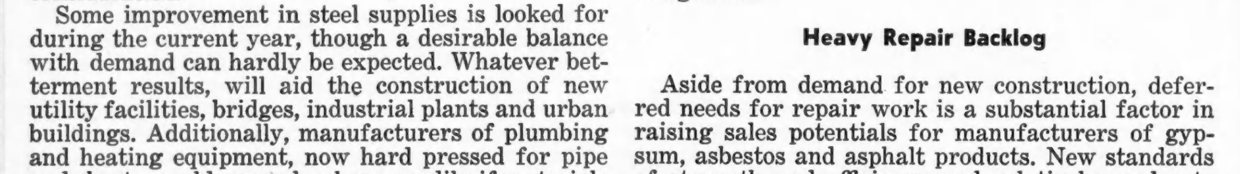
With no signs of a let up in demand for asbestos fiber products, gypsum board and lath, and various insulation materials, manufacturers of these products are in an exceptionally favorable position. Stocks in the hands of dealers are grabbed by builders almost upon delivery by the producers, leaving inventories far below desired levels. As the relatively low cost of these products compared with competitive items helps to expand volume, and though their prices have not risen nearly as fast percentage-wise, a rapid turnover by the manufacturers has held profit stable despite rising operating costs.

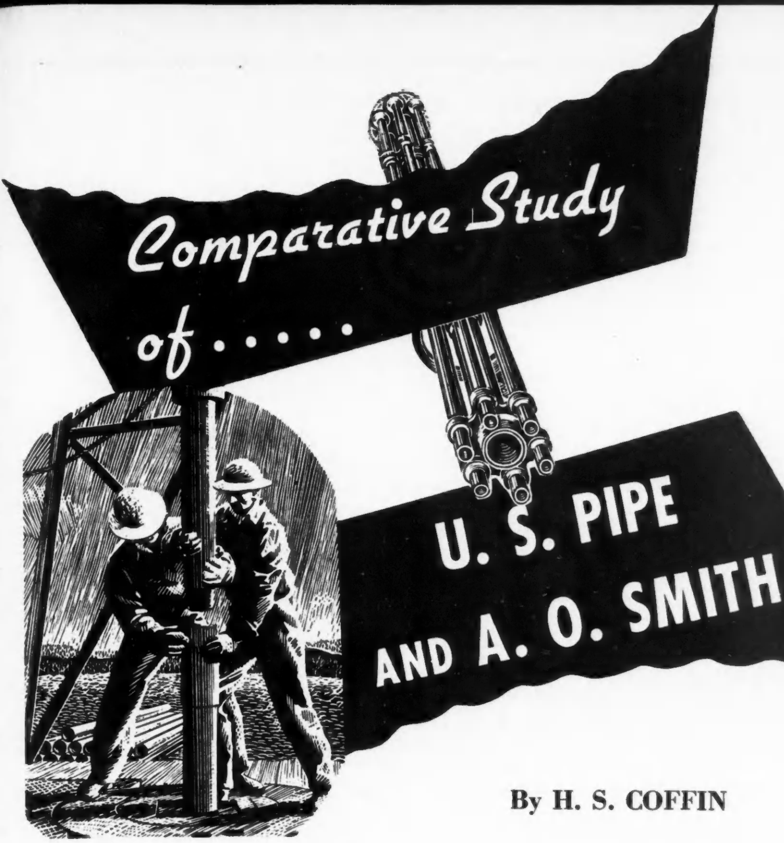
Net earnings of practically all the major concerns in this field rose sharply last year and signs are that the uptrend may continue rather impressively during 1948. What bolsters these expectations is that most of the leading companies have now completed sizeable expansion and modernization programs that should bear fruit in the current year. Supplies of gypsum rock are plentiful in many sections of the United States, thus minimizing raw materials problems. 90% of asbestos is imported from Canada, as well as large quantities of gypsum rock, but the American companies own the mines and ship the output to their factories across the border, hence achieving a desirable degree of integration.

Heavy Repair Backlog

Aside from demand for new construction, deferred needs for repair work is a substantial factor in raising sales potentials for manufacturers of gypsum, asbestos and asphalt products. New standards of strength and efficiency and relatively moderate prices have undoubtedly tended to improve the competitive position of these products in relation to prewar experience, and due to scarcity of lumber and metal supplies, the leading manufacturers have been making the most of their opportunity to exploit the markets. Though quite a number of strong concerns are in the field, there appears plenty of business in sight for all, pointing to good earnings and possibly more liberal dividends.

Sales by manufacturers of paints increased by about 38,2% during the first nine months of 1947 and it is certain that results for the full year were far better than in any previous year on record. If total volume of this segment of the building industry last year topped $1 billion by a fair margin, it should occasion little (*Continued on page* 610)





By H. S. COFFIN

Now that production in some segments of the economy appears to be catching up substantially with deferred demand, it is interesting to center attention on enterprises likely to enjoy capacity operations for an extended period ahead, due to exceptional demand conditions in their respective fields. In the latter respect United States Pipe & Foundry Co. and A. O. Smith Corporation seem well qualified for the purposes of our discussion.

At the outset we should point out that these two concerns are not competitive. They have only one thing in common and that is that both manufacture pipe (through different types) and both—as far as pipe is concerned—seemingly can look forward to excellent and well sustained sales. Beyond that there are broad differences in the nature of business and markets, as outlined hereafter.

But in each instance, peak peacetime sales and earnings were recorded last year and equally bright potentials are indicated for several years to come. Viewed in this light, their current status is rather dynamic, warranting careful study on an individual basis, for it is such situation as these that sometimes hold considerable promise.

U. S. Pipe & Foundry

Suppose we look at U. S. Pipe first. This concern is the dominant manufacturer of cast iron pipe and fittings in the domestic economy, additionally making special castings and equipment for the fertilizer, chemical and sugar industries, and accepting orders to make such items as engine beds, drums, etc. upon customers' specifications. Aggregate annual capacity for pipe production is about 800,000 tons. Cast iron pipe, as it happens, is used mainly for low pressure installations such as water and sewer systems, both indoors and underground. Gas manufacturers also use large quantities of this pipe. As a natural extension of its foundry activities, the company also produces a broad line of machinery bases, columns for buildings, tanks, coal chutes, and bases for trolley and telegraph poles. Cast iron equipment for the chemical industry consists mostly of retorts, valves, jugs and kettles. Evaporators, vacuum pans and other items of cast iron are extensively used by the sugar industry, while fertilizer machinery includes blowers, tanks and vats, some of which are lined with other metals.

From the foregoing it can be envisaged that U. S. Pipe's business is sensitive to cyclical swings in economic activity. In part, however, this accounts for the fact that the industry is not overburdened with many competing concerns. Indeed, this company's long experience during almost half a century and its absorption of more than half a dozen other concerns throughout the years has established such a commanding position that almost half of the cast iron pipe volume of the industry originate with U. S. Pipe. Five plants, two in Alabama, and others in Ohio, Tennessee and New Jersey provide it with strategic advantages as to both market and raw materials, for freight rates are an important factor in selling activity as well as in bringing pig iron to the company's plants. While U. S. Pipe directly produces none of its essential pig iron supplies, it owns 272,500 shares of common stock in Sloss Sheffield Steel & Iron Co., 54.9% of the total number outstanding. As this latter concern has an annual capacity for 500,000 tons of pig iron and one million tons of coal, the requirements of the controlling company are amply provided for.

Growth Trend in Volume

Annual volume of U. S. Pipe, despite the inevitable fluctuations, has exhibited marked and rather consistent growth characteristics for 14 years past. Back in the depression year of 1933 when sales were first reported publicly, the volume was at a modest level of $4.6 million, but climbed rather steadily to $29.1 million by 1942. During the 1943-46 period, sales were somewhat lower, but judging by a volume of more than $23 million for nine months of 1947 and an uptrend as the year progressed, the showing for 12 months may be around $32 million, an all time record by a comfortable margin.

What has substantially aided this company to achieve such satisfactory progress has not only been a natural expansion in markets but its ability to steadily improve its manufacturing processes and

U. S. Pipe & Foundry Long Term Operating and Earnings Record

	Net Sales (000 omitted)	Sales Per Share	Operating Margin	Net Income (000 omitted)	Net Profit Margin	Net Per Share	Dividend Per Share	Price Range
For Year ended Dec. 31, 1947	$32,000 E	$46.00	......	$4,187	13.0% E	$6.01	$1.60	46½-35*
Years: 1946	18,903	27.15	7.7%	836	4.4	1.20	1.60	60¼-35
1945	22,148	31.80	9.5	1,410	6.4	2.03	1.60	57 -35
1944	20,226	29.00	7.7	1,552	7.7	2.23	1.60	37⅝-30¾
1943	15,595	22.40	9.8	1,608	10.3	2.31	2.00	37⅛-29⅛
1942	29,198	42.00	25.2	1,655	5.7	2.38	2.25	29⅛-22
1941	23,363	33.60	21.7	2,614	11.2	3.76	2.50	31⅞-20¼
1940	16,187	23.20	19.6	2,403	14.8	3.45	2.50	38⅛-21¾
1939	14,460	20.80	21.2	2,570	17.7	3.69	2.50	49 -32¾
1938	11,702	16.80	16.1	1,654	14.1	2.38	2.00	49⅝-21½
1937	13,434	19.30	19.6	2,235	16.6	3.21	3.00	72¼-24
10 Year Average 1937-1946	$18,521	$26.60	15.6%	$1,853	10.9%	$2.66	$2.15	72¼-20¼
4 Year Average 1937-1941	$13,946	$20.02	18.6%	$2,215	15.8%	$3.18	$2.50	72¼-21½

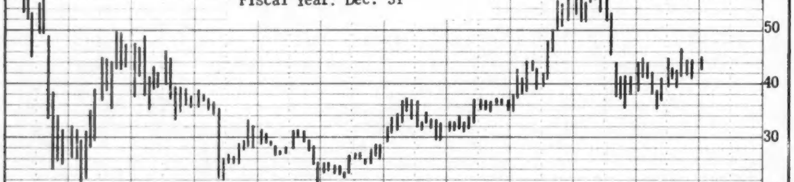
E—Estimated. *—1947-48 range through February 11.

and products. Cast iron pipes up to 84 inches in diameter are produced by the standard foundry method of sand casting, but pipes of from 3 to 24 inches in diameter are made by the company's so called Super de Lavaud process, on which it holds United States and foreign patents, and which involves centrifugal operation that improve pipe qualities. Though this process originally was offered to competitors, only a few concerns accepted the privilege, and the Government has entered suit to break up an alleged monopoly.

Strong Demand Outlook

As for markets, the widespread industrial boom and especially the great expansion in municipal undertakings and public utility programs since the end of the war has created such a demand for cast iron pipe that only several years of capacity operations can hope to meet it. There is hardly a manufactured gas utility in the country that has not embarked upon broad scale extension of its services and earmarked sizable funds for it. Then, too, deferred replacement of municipal water pipes since Pearl Harbor plus the upsurge in housing developments and construction of public buildings has flooded the cast iron pipe markets with firm orders. This industry clearly seems to have entered upon quite a lengthy period of high-level activity unlikely to be affected by any moderate business recession that may occur, and with every indication of a prolonged seller's market. In other words the cards seem to be playing strongly in favor of U. S. Pipe, provided work interruptions or restrictive allocations of raw materials do not cloud the picture as time passes.

As an offset to increasing competition from concrete pipes in the promising markets mentioned, U. S. Pipe has formed the Portusco Corporation to manufacture pre-stressed concrete pipe of large diameters, under agreements with French interests which developed the process. Under this arrangement, U. S. Pipe has a half interest in this $1 million venture, an initial plant has been completed in Cuba and others are to be built in the United States.



Operating Margins

During prewar years. U. S. Pipe was able to maintain its operating margins at a fairly high level, averaging 18.6% during the 1937-41 period. During this same interval, net profit margins, too, were very satisfactory, with an average of 15.8%. Though wartime sales continued large, excess profits taxes reduced net margins substantially, but large volume held net per share to above $2 compared with an average of $3.18 during 1937-41. Freed from this tax burden in 1947 and with rapidly expanding volume, it looks as if net profit margins rebounded close to a level of 13%, since net per share expanded about threefold to around $6.01. As backlog orders are very ample, the prospect is bright that 1948 will prove equally profitable.

A. O. Smith Co. Long Term Operating and Earnings Record

	Net Sales (000 omitted)	Sales Per Share	Operating Margin	Net Income (000 omitted)	Net Profit Margin	Net Per Share	Dividend Per Share*	Price Range*
For 3 months ended October 31, 1947	$32,133	$64.26	....	$1,522	4.6%	$3.04	....	....
For fiscal years ended July 31, 1947	$91,703	$183.40	4.3%	$3,596	3.9%	$7.19	$1.00	62½-38(a)
1946	82,482	164.96	0.6	551	.7	1.10	1.00	91 -42
1945	194,464	388.92	17.4	4,536	2.3	9.09	1.00	96 -48½
1944	159,888	319.77	12.4	6,407	4.0	8.73	1.00	54½-29½
1943	129,209	258.42	13.9	5,633	4.3	11.29	1.00	39½-19
1942	55,306	110.61	16.6	3,700	6.7	7.42	1.00	20¾-15¼
1941	46,667	93.33	9.4	2,734	5.9	5.49	.50	25⅝-14½
1940	29,835	59.67	7.4	1,686	5.6	3.39	.50	22 -10½
1939	20,297	40.59	1.0	108	.5	.22	Nil	21 -11⅜
1938	20,200	40.40	deficit	def982	deficit	def1.97	Nil	24 -13
10 Year Average 1938-1947	$83,005	$166.00	8.3%	$2,797	3.4%	$5.20	$ .70	96 -10½
4 Year Average 1938-1941	$29,250	$58.50	4.5%	$ 887	3.0%	$1.78	$ .25	35⅝-10½

*—For Calendar Years. (a)—1947-48 Price Range through February 11, 1948.

U. S. Pipe has maintained an unbroken dividend record since 1926, despite a temporary lapse of earnings into the red during two years in the early 1930's. Furthermore, dividend policies have been liberal, for 80% of net profits have been distributed to stockholders during the past decade. During the 1944-47 period the rate was held to $1.60 per share annually, compared with $2.50 from 1939 through 1941.

Dividend Outlook

As for 1948, the directors have taken the unusual step of declaring quarterly dividends for the entire year at an annual rate of $2.80 per share. Partially accounting for this relative conservatism—in view of former dividend liberality—may be the fact that $500,000 of 2% notes due banks were retired on December 18, 1947 and $2.5 million more will become due on or before December 18, 1950. As annual net earnings are now exceeding $4 million and the 1948 dividend would absorb less than $2 million, a comfortable margin should exist to retire all the notes, and to expand facilities considerably. Conceivably, also, there might be room to raise the dividend rate more in line with prewar proportions, if net earnings during the next year or so continue to be as satisfactory as now seems likely.

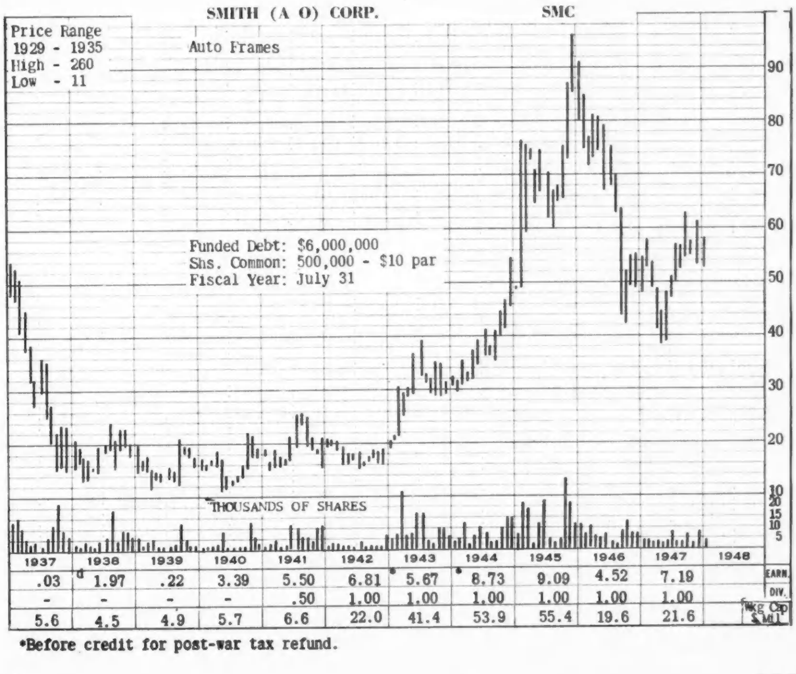
Although U. S. Pipe has reported net earnings for 1947, its full annual report and balance sheet will not be forthcoming until the middle of March. At the end of 1946, though, current assets exceeded current liabilities by almost 5 to 1, indicating exceptional financial strength. Due to strongly sustained demand, inventory problems must be negligible at present. As for the capital structure, it is simple with only 695,923 shares of common stock outstanding.

At a recent prive of 41, about half way between the 1947-48 high-low, these shares yield 6.8%. In view of the moderate price-earnings ratio of 6.8, the company's fine long term record, and promising future potentials, the shares carry considerable appeal for a longer term pull.

A. O. Smith Corporation

Broadly diversified output is characteristic of A. O. Smith. For many year past, production of automobile chassis frames and other parts for the automotive industry has been an important factor in its operations. Pressure vessels for the chemical, oil and synthetic rubber industries also have contributed substantially to over-all volume. Coal stokers, glass line tanks, beer barrels and water heaters are produced on a large scale, while a wholly owned subsidiary on the Pacific Coast manufactures electric specialities.

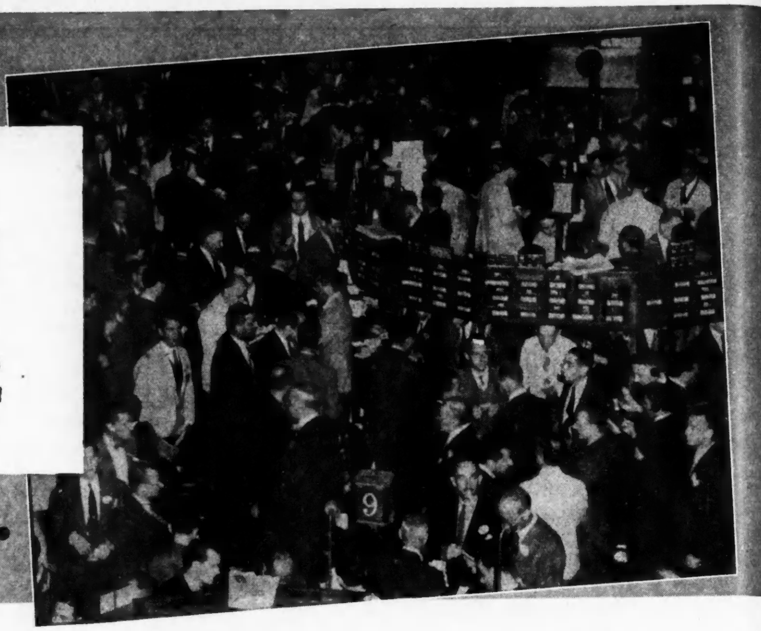
Of major importance, however, under current conditions in the economy, is the company's ability to turn out large quantities of welded steel pipe for the oil and natural gas industries. This arc-welded product is made by (*Continued on page* 619)



*Before credit for post-war tax refund.

FOR

PROFIT AND INCOME



March

Looking over the chart back to 1897, March has brought some decline in the Dow-Jones industrial average, ranging from moderate to large, in 18 years; advances in 16 years; little change in 17 years. Marketwise, the month has a poorer reputation than the record justifies. "Look out for March!" is an oft-heard warning from those who are bearish. Actually, March results have been in line with the major market trend rather more consistently than has been so in most other months. Why that should be so is conjectural, unless it be reasoned that a better line can be had on first half business prospects by March than in January-February. At any rate, very few of the big winter intermediate rallies in severe bear markets have run through March. In bear market years, on a long-term average, it has been a worse month than January or February. This has certainly started as a bear-market year, but the speculative caution evident throughout the winter might argue for moderate March fluctuation in the probable absence of decisively bearish business developments.

"Defensive"

After a market has gone sour, the brokers and others begin to recommend "defensive" stocks, meaning equities of companies which have usually shown a high degree of stability in earnings and dividends, regardless of cyclical fluctuations in the general economy. The term "defensive" is not too satisfactory. It leads inexperienced investors to expect more market stability than any common stock can offer. They all go down in bear markets. It may not make sense, where earnings and dividends are not subject to significant change; but it nevertheless happens under pressure of general sentiment. True, stable-income stocks go down less-than-average, but it cannot be said that maximum possible decline is small. Often it has been disconcertingly broad. The advantages to be emphasized are good and secure income return; the peace of mind that goes with this; and the assurance of adequately satisfactory market levels on a longer-term average basis. Following the storm, price recovery is assured, since there is no wait for earning power to be rebuilt. It has been there all along.

Omens

Two of the many individual stocks which recently made new bear-market lows were American Telephone and General Motors. Their action may have general trend significance, simply for the reason that it would be hard to find any two stocks having greater influence on over-all investment sentiment than these widely held, bellweather issues.

Telephone

The making of a new bear-market low in American Telephone, now held by 723,374 investors, pretty much coincided with release of the annual report, showing 1947 net income applicable to the stock of $7.66 a share

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1947	1946
Buckeye Pipe Line	Year Dec. 31	$1.03	$ .82
Canada Dry Ginger Ale	Dec. 31 quarter	.42	.30
Columbia Gas & Electric & subs.	Year Dec. 31	1.36	1.20
Continental Steel	Year Dec. 31	2.58	1.89
Household Finance	Year Dec. 31	3.10	2.43
Quaker State Oil Refining	Year Dec. 31	2.98	2.63
TelAutograph	Year Dec. 31	.82	.56
Waukesha Motor	6 mos. Jan. 31*	1.63	1.14
Western Electric	Year Dec. 31	3.59	1.51
Woolworth	Year Dec. 31	4.32	4.12

*For 1948 and 1947

—less than the $9 dividend—against $10.23 a share in 1946. As usual, the dividend is in no danger. The reduced earnings for the year reflected the strikes against Bell System companies last spring and the lag between higher costs and the obtaining of rate relief. Rate boosts so far amount to $118 million on an annual basis, probably enough to offset higher wages granted durring the year. Currently the System is earning at a rate better than $9 a share on the stock. Applications are now pending in various states for rate increases amounting to $70 million a year, and the bulk of these are likely to be granted, judging by experience heretofore. If price inflation is topping out, as seems likely, this will be a good thing for the Bell System, as well as for all utilities. The company very likely will have to contend with more effective unionization of its employees in future. On the other hand, use of labor-saving equipment is nowhere near the maximum; and it will be pushed.

Catching Up

What we have had since the end of the war and reconversion is in large measure a catching-up boom. The more we catch up, by progressively filling the accumulated demands, the nearer we get to a normal supply-demand situation. Even if there were no general business recession this year, lines likely to have smaller unit volume in 1948 than 1947—largely because more urgent demands have been served—include tires, radios, oil burners, shoes, small electric motors, most brass mill products, many types of house-furnishings and equipment and some textile products. The big backlogs left are in automobiles, building and capital goods. The easing of individual supply-demand situations no doubt will find reflection in market selectivity.

First National

We commented favorably some time ago on First National Stores, the largest grocery chain operating exclusively in conservative New England and closely adjacent territory, and one of the most ably managed in this field. The company has recently raised the regular dividend rate from $2.50 to $3.00 a year, giving a yield fairly close to 6% at current market prices. As present earning power is around $7 per share a year, some extra payment is not unlikely. Theoretically, declining food prices will be adverse; so the stock may well become available on a still more attractive price basis before the year is out. However, two things should be repeated. First, this company demonstrated ability to cope with price deflation during 1929-1932, paying and amply covering its $2.50 dividend throughout that worst of all deflations. Second, throughout the company's history the dividend changes—made cautiously and infrequently—have in every instance been upward. Although no common dividend is guaranteed, the record and character of First National Stores suggest that the new $3 rate comes about as close to a sure-thing status as can ever be true of the distribution of any equity.

Margins

Although corporate earnings remain at high levels, the 1947 annual reports will undoubtedly show a large number of instances of narrowing operating margins; and the prospect for 1948 is a sharper and more general tendency in this direction, even if general business holds close to current volume. Two examples, picked at random, may be cited. The 1947 net profit of American Woolen equalled about 8.7% of sales of $176 million, against 11.7% on sales of $170.8 million in 1946. For U. S. Rubber the 1947 net was only about 3.7% of sales of $580 million, against 4.7% on 1946 sales of $494.7 million. In both instances: higher sales (sharply so in the case of the rubber company) but lower net income. When sales decline, break-even points being where they are, some investors are going to be amazed at how rapidly and greatly the earnings of many companies can "fold up." It is true that prevailing price-earnings ratios make a very substantial allowance for this contingency. That they completely discount a shake-down in profits, via business recession, is unlikely.

Inventory Profits

According to estimates of the Department of Commerce, inventory profits in 1946 accounted for somewhere near a third of the total corporate profits reported for tax purposes. It was undoubtedly a somewhat smaller proportion of 1947's estimated aggregate earnings of about $17 billion, but still important. Probably the mere cessation of price rise could subtract something like $4 billion from the 1947 rate of over-all profits. As things look now, 1948 could well show a net inventory loss for business as a whole. Profits reported to stockholders are after special reserves, not deductible for tax purposes, and hence their total differs materially from the aggregate used by the Department of Commerce in its estimates of inventory profits or losses. In many instances, 1948 earnings reports will include credits from inventory or contingency reserves set up in prior years. Protective accounting devices—including the first-in-last-out method (LIFO)—tend to flatten out profit swings, both ways, from price changes. But the protection can never be more than partial. Lower prices and lower volume spell lower earnings, as well as losses among marginal, and "prince-and-pauper" type, concerns.

DECLINES SHOWN IN RECENT EARNINGS REPORTS

		1947	1946
General Baking	Year Dec. 27	$1.31	$2.09
General Cigar	Year Dec. 31	2.64	2.76
McCrory Stores	Year Dec. 31	5.34	5.55
McKesson & Robbins	6 mos. Dec. 31	2.65	3.03
Pacific Mills	Year Dec. 27	9.59	11.99
Pacific Tel. & Tel.	Year Dec. 31	2.80	6.04
Pennsylvania Water & Power	Year Dec. 31	4.32	4.73
Simonds Saw & Steel	Year Dec. 31	5.74	6.04
Twin City Rapid Transit	Year Dec. 31	.62	4.29
Warner Brothers	Nov. 29 quarter	.54	.97

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Savings Accumulated the Hard Way

A friend of mine and I have been subscribers to your magazine for years. Had I followed your advice closely instead of my broker's I would have been much better off. The idea of writing you came from reading your column "Answers to Inquiries." The answers you give indicate well meaning and a conscientious interest in your readers investment problems. The following will cover my previous history, financial status, objectives, etc.

My family operated a department store in Germany for four generations. I had an interest in the business but was also a practicing attorney. When Hitler came into power I had to give up my profession and I immigrated to the U. S. in 1939. While most of our family died in Hitler's gas chambers, I was fortunate to save my parents who lost all their large holdings and are now entirely supported by me. Through hard work and very long hours—12-13 hours a day, I have managed to save a substantial sum. I am now a buyer in a department store of medium siz.e My salary amounts to $70.00 *a week. I have* $6,000.00 *in savings accounts and* $1,000.00 *in war savings bonds. My security holdings are as follows:*

300 *shares Commonwealth & Southern common*
50 *shares General Public Utilities*
50 *shares Gulf Mobile & Ohio*
50 *shares National Supply*

The reason for entering the market in 1945 was actually not to make a profit from a situation like a war boom. My intention really was to try to save hard earned money from the effects of an inflation. I have seen inflation in Germany and know its evil. Of course, I do not believe that this country will ever see any inflation like Europe has experienced. I am 41 years of age, my parents 70 years old and citizens. Though still young I fell that I might not be able to work always as hard as today. My aim is to save about $25,000 *to* $30,000 *and then to take a job with easier hours with a smaller income. May I now submit my questions:*

1. Am I entitled at all to have investments in the market in view of my obligations and my financial situation? If yes, up to which amount?

2. Are my holding worthy of retention now? Unfortunately, I did not follow Mr. A. T. Miller's advice to sell during January. Any advice you can give me will be appreciated.

H. S., Washington, D. C.

You possess the old fashioned virtues of thrift and industry which are highly commendable. It is quite natural that you should be concerned with the proper investment of your hard earned money.

We have carefully considered your age, financial status, and objectives, etc., and in our opinion a 50% investment of your capital funds in sound, dividend paying equities is warranted. Despite the recent decline in commodity prices, inflationary factors are still with us and therefore some commitments in equities are justified.

We recommend retention of your holdings of Commonwealth & Southern common stock as earnings for 1947 amounted to 63c per share and in the recapitalization plan that is pending, the indicated asset value is approximately $4.00 per share. General Public Utilities and National Supply Co. common stocks merit retention on the basis of favorable earnings, prospects, and dividend yields. We recommend temporary retention of Gulf Mobile & Ohio common stock as present earnings are good but with longer-term outlook obscure, sale is recommended on sharp strength in coming months. All these stocks are very speculative and we recommend that in time, they be replaced by better quality issues, particularly those with good growth prospects. We suggest that new purchases be deferred until Mr. A. T. Miller in his market outlook articles in our magazine indicates a buying level has been reached and at that time, we will present in our publication good quality securities that offer good income yields and better than average enhancement possibilities.

Bell & Howell

Please report sales, earnings and dividends of Bell & Howell.

B. L., Portland, Oreg.

Bell & Howell reported that 1947 net sales reached a record peace-time high, exceeding $18,000,000. Sales for the month of December alone exceeded $2,000,000, setting a new high level mark for monthly sales. Earnings for the first nine months were estimated at $1,755,742 after Federal income taxes, equal to $3.60 per common share on the common stock, a record high. Final audited figures for the full quarter and for the entire year of 1947 will not be available until release of the company's annual report on April 1, 1948.Dividends paid on the common stock during the year totaled $1.25 per share and 12½ cents has been declared thus far in 1948. Most important factor accounting for the increased sales last year was the success of the company, the nation's largest exclusive manufacturer of motion picture cameras, projectors, and visual education equipment, in overcoming the 1946 shortage of materials and parts. Another reason was the exceptionally high demand for cameras and projec-

(Please turn to page 615)

Keeping Abreast of Industrial and Company News

Last year **Devoe & Raynolds Company,** Inc. enjoyed the most successful operations in its entire 193 years' history. Record sales of $42,095,612 were 23.5% above the previous year. This resulted in peak earnings of $3,008,245, an increase of 60.5% over 1946. Per share earnings on Class A and Class B stocks were $5.62 and $2.81, respectively.

General Electric has developed an electronic device which hardens precision surfaces uniformly. This device, working in league with a 1,500,000-cycle generating unit, induces high-frequency current in conducting objects placed near it, and heats them to the desired temperature. It will save lathes from premature "old age."

The Home Radio Divison of **Westinghouse Electric** has announced that it is planning to produce a total of 750,000 radio receiving sets during the current year. If this goal is achieved, it would mean a new peak output, exceeding by 50% the record number of sets produced last year.

For the first time in the history of the heating and air-conditioning business, according to C. E. Wilson, vice president of **Worthington Pump and Machinery Corporation,** dealers and distributors are competing aggressively to get increased allotments from their sources of supply. Demand is for 50% more than allotted.

Results of an experiment conducted by **Allied Stores-Victor-R.C.A.** "Television Caravan" indicate that the use of television as a promotional device may increase sales as much as 200%. The experiment covered a period of five months and included thirteen stores located throughout the country.

Pittsburgh Consolidation Coal Company, the world's largest commercial coal producer, is ready to begin construction of a pilot plant to convert coal into gasoline, fuel oils, and gas. If the $300,000 model plant is successful, the company will erect a big scale $120,000,000 plant in southwestern Pennsylvania.

To fortify themselves against profitless property, the **gray iron foundries** are the first of the country's billion dollar industries to suggest a formula for evaluation of "normal output" during the next ten years. A national program of industry-sponsored cost analysis has already been started.

Dow Chemical Company has announced a program to establish brand-name acceptance for plastic products made by manufacturers using its materials. Those who qualify will be given the right to use a "hall mark" approval label. Main emphasis will be on Styron because of its wide use in household items.

Panhandle Eastern Pipe Line Company reached a new high last year when it reported gross revenues of $30,433,926, surpassing the previous year's figure by $2,757,802. Higher wages, greater cost of materials, and increased taxes held net down to $7,834,432, an increase of only $141,298 over the previous year.

Placing an order for an additional 5,000 freight cars at an estimated cost of $22,000,000, **New York Central** will reach the $270,000,000 mark in its 1945-48 post-war improvement program. This figure includes expenditures for new motive power and rolling stock, and for roadways and structures improvements.

Philco Corporation has announced price reductions up to 6% on refrigerators and to 25% on radios. This is in line with long established company policy of lowering prices on new and improved products as rapidly as possible, rather than by cutting prices on existing models.

United States Steel Corporation will commence operations this year in ten major facilities now being constructed under a $500,000,000 development program. These include blast furnaces, research laboratories, steel mills, coal washers, coke oven batteries, and tube making plants. Three other projects are scheduled for 1949.

Eastman Kodak Company points out the fact that although wages and manufacturing costs have gone up substantially since 1939, prices of the company's products have been increased over-all by only 16%. This follows the long-time policy of keeping prices reasonable in order to expand potential markets.

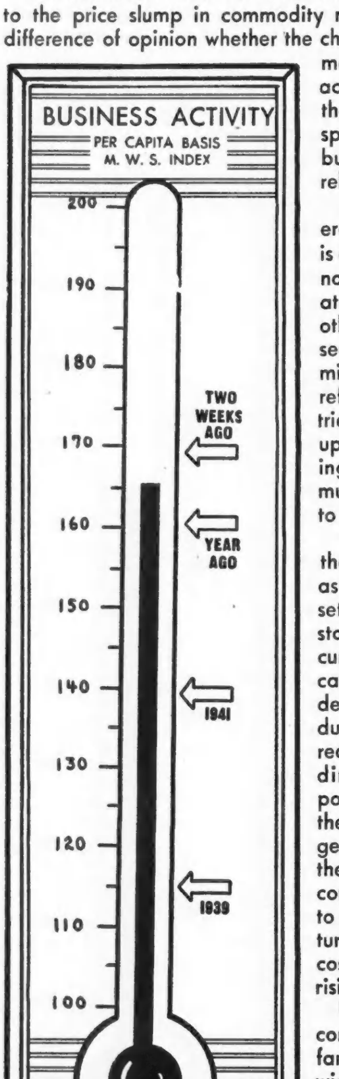
Reporting gross sales of $754,282,085 for 1947, **Kroger Company** realized a net income of $9,610,976, or $5.23 per common share. This is equivalent to 1¼ cents per dollar of sales. While profits increased moderately over the previous year, this was due to increased volume rather than to mark-ups.

Jones & Laughlin Steel Corp. has placed into operation a new cold strip mill which has achieved the speed of 70 miles an hour, believed to be the fastest ever attained by a steel rolling mill. The mill was built by Mesta Machine Co. and is powered by General Electric Motors.

A new, compact window-type room conditioner for homes and offices is being introduced by the Frigidaire Division of **General Motors.** Designed for installation in almost any window, it provides low-cost cooling for rooms up to about 250 square feet. Two or more units are recommended for large rooms.

What's Ahead for Business?

Caution rather than fear is the reaction in business quarters to the price slump in commodity markets. While there is a difference of opinion whether the check to inflation now in the making will be followed or accompanied by a recession, the thought is still widespread that any slowing in business may be mild and relatively shortlived.



Business thrives best in an era of rising prices, unless it is overdone. A turning point, now evidently at hand, creates new problems. Among other things, it is causing a searching for situations that might be affected most. This refers particularly to industries where output has caught up with demand at prevailing prices, where the latter must give way if goods are to be moved.

It should not be doubted that industry is just as anxious as the consumer to see prices settle down to lower and stabler levels. Resistance to current prices has already caused physical volume to decline in certain lines. Producers and distributors alike recognize this symptom of diminishing consumptive power. They are aware that the solution lies in prices geared to mass buying. But they are stumped when it comes to the question how to reduce prices of manufactured articles when every cost element is high, even rising.

Unquestionably, the price correction now under way in farm commodities has had widespread psychological effects. For the time being, soft goods retailers appear the most apprehensive, which finds reflection in avoidance of any sizable forward commitments. Consumers reacted to the price slump by postponing purchases, as witnessed by last week's 3% decline (against 1947) in department stores sales compared with an 8% increase a week earlier. Still, retailers are loath to jump to hard and fast conclusions. They, as well as many other observers, are awaiting the Easter period for the first real indication of buyer psychology.

Elsewhere, bad weather continues to confuse the issue and makes it difficult to read significance into trade figures. The weather is being blamed for a large part of the recent slight decline in overall business activity, and probably correctly so. Particularly in manufacturing quarters, where sentiment is fortified by huge order backlogs, concern as yet is not too great about the effect of price adjustment on production, though it is admitted that continued weakness would set back business sentiment and also business.

The further trend in commodity prices bears close watching for indications of the scope of price correction to be expected, and the extent of repercussions to follow. It's been a break of major importance, no doubt; the crucial question is how soon, and to what extent, will it lead to price adjustments in other fields. Even to measure the food price trend will take some time. Industrial prices, anchored as they are to a high and rigid cost structure, for the moment appear less vulnerable. But here are some things to watch.

Things to Watch

First of all, there is the effect of the farm price break on the public's buying habits and on business psychology. Also, the effect of a slowing of business — if and when it occurs — on Administration policies. Then there are inventory trends and buying policies. The growing inventory risk is the big bugaboo; it is watched tensely by commodity processors. Inventories are still not excessive in relation to sales but they are big enough, if dumping should occur, to hit the markets hard.

Buying policies are no less important as a clue to the immediate business trend; extreme caution may lead to cancellation of replacement orders and touch off general weakness in price levels, creating an inventory crisis that might quickly nip our boom. A swing towards greater caution in buying is almost a foregone conclusion in lines where demand-supply balance is approaching or achieved. It may spread elsewhere.

A third point to watch is receivables; their recent rise reflected a disposition of business to extend easier terms, but in view of price developments, credit men are likely to be more cautious henceforth. There is no denying that collections have slowed down. Any tightening in business credit policies is bound to lead to a contraction of business, quite apart from possible need for inventory liquidation.

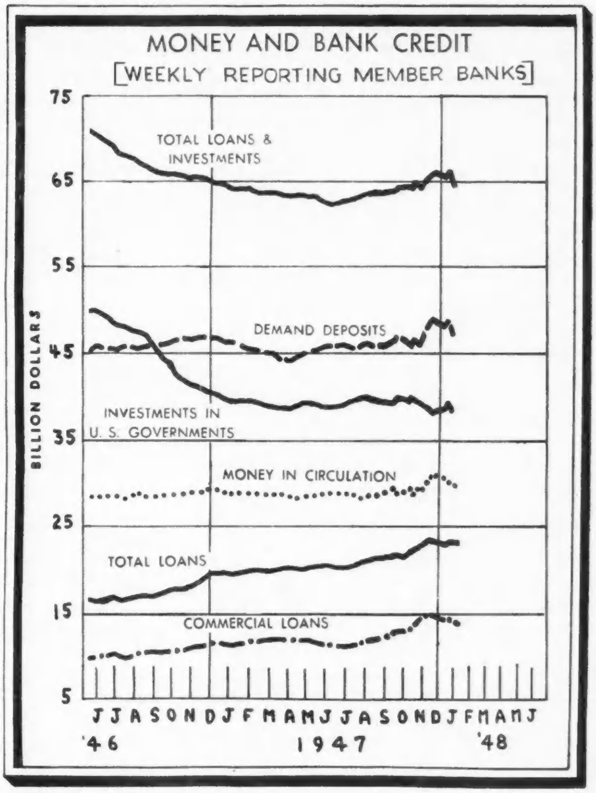
HIGHLIGHTS

MONEY AND CREDIT—Common stock prices decline in sympathy with break in commodity markets; but accredited averages stop short of last year's low. Sixteen of The Magazine of Wall Street's forty-six industrial sub-group averages, however, break through their 1947 lows. Commodity declines have caused Treasury to re-examine its plans to check inflation by financial measures; but the "Buy Savings Bonds" campaign will be staged as originally scheduled. U. S. Government's hold steady to firm under continued F. R. B. support. Treasury offers new one-year 1 1/8% certificates in exchange for $4.48 billion of maturing Treasury certificates and redeemable 7-year and 12-year bonds; thereby effecting a considerable saving in interest charges. Cash will be paid to holders who do not wish to accept the new certificates in exchange. Spread widens between cable and 90-day exchange rates for sterling, indicating some uneasiness as to future value of the British pound.

TRADE—Department store sales in fortnight ended Feb. 7 spurted to 9% above last year, against cumulative gain of only 7% for year to date. On a unit quantity basis, this is a shade better than a year ago.

INDUSTRY—Wintry weather and gas shortages bring a modest dip in business activity; but concensus of informed opinion is that commodities slump does not herald an imminent business depression.

COMMODITIES—Commodities decline of past fortnight was not alarmingly large in view of the inordinate advance that had taken place since pre-war days. The averages are still above last year, and further extensive declines from this level will bring Government support measures into action.



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Owing mainly to wintry weather and fuel shortages, **Business Activity** contracted about 2% during the fortnight ended Feb. 7; but, as there was a dip of similar proportion a year ago, the Nation's total physical volume of business is still about 6% above last year at this time.

* * *

For the month of January, this Publication's **Business Index** rose to 189.7% of the 1935-9 average—two points above December, and 6.7% ahead of January a year ago. On a per capita basis, our index for January registered 169.1% of the 1935-9 average, compared with 167.4 for December and 163.4 for January, 1947.

Department Store Sales in the fortnight ended Feb. 7 spurted to 8% above the like period last year, compared with a cumulative gain of only 7% for the year to date. Looks as though housewives have had to bundle up and venture out again to replenish depleted supplies.

While the total dollar volume of sales registered by the nation's **Retail Stores** last year was 12% ahead of 1946, declines ranging from 1% to 9% were reported by several lines. Among these were jewelry, 9%; taverns and night clubs, 7%; women's accessories, tires and auto-accessories, 5%; liquor stores, 4%; eating places, custom tailors and women's ready-to-wear, 3%; opticians, 2%; shoes, furriers, florists and book stores, 1%.

There is little convincing evidence as yet that the much publicized slump in **Commodity Prices** since our last issue, the sharpest for any similarly brief period in a century, heralds an imminent business depression. Neither is there any occasion for seeking a villain in the plot as a scapegoat for the inevitable outworking of natural economic forces.

* * *

The simple explanation is that farm products prices, under the spur of a politically-motivated **Inflation Scare** conjured up by Washington officialdom, had soared to abnormal altitudes and then naturally collapsed under reports that consumption was being slowed by exhorbitant prices and that world crop prospects are brighter this year than previously supposed.

It does seem reasonably certain that the peak in farm commodity prices reached in December will not be challenged again until the next war; but the drop thus far has been too small, in proportion to the extraordinary rise from pre-war days, to shatter the foundation of our present wave of prosperity. Before that point is reached, the slump will be arrested by **Government Support.**

In fact the decline might turn out to be what, in old pre-New Deal days, used to be styled **"A Healthy Reaction."** It will bring some reduction in living costs, and might induce organized labor to settle for less than demanded in this third round of employer-employee dickering.

Of even greater importance, it might lead the Treasury to re-examine its plans for precipitating a "Little Depression" by

(Please turn to the following page)

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
MILITARY EXPENDITURES—$b (e)	Jan.	1.20	1.15	1.43	1.55
Cumulative from Mid-1940	Jan.	364.0	362.8	349.0	13.8
FEDERAL GROSS DEBT—$b	Feb. 11	254.7	254.8	259.1	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	Feb. 4	48.2	48.8	46.0	26.1
Currency in Circulation	Feb. 11	28.2	28.1	28.3	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	Feb. 4	8.88	8.76	8.03	4.26
93 Other Centers—$b	Feb. 4	12.72	12.71	12.34	7.60
PERSONAL INCOMES—$b (cd3)	Dec.	209.7	204.2	189.9	102.0
Salaries and Wages	Dec.	129.3	128.3	118.6	66.2
Proprietors' Incomes	Dec.	54.0	49.9	47.2	22.8
Interest and Dividends	Dec.	15.6	15.5	13.9	10.0
Transfer Payments	Dec.	10.8	10.5	10.4	3.0
(INCOME FROM AGRICULTURE)	Dec.	25.8	21.9	22.6	10.1
CIVILIAN EMPLOYMENT—m (cb)	Jan.	57.1	57.9	55.4	51.8
Agricultural Employment (cb)	Jan.	7.1	7.0	6.5	8.8
Employees, Manufacturing (lb)	Dec.	15.9	15.8	15.3	13.8
Employees, Government (lb)	Dec.	5.6	5.4	5.6	4.8
UNEMPLOYMENT—m (cb)	Jan.	2.1	1.6	2.4	3.8
FACTORY EMPLOYMENT (1b4)	Dec.	158	157	153	47
Durable Goods	Dec.	183	182	177	175
Non-Durable Goods	Dec.	138	137	134	123
FACTORY PAYROLLS (1b4)	Nov.	345	342	298	198
FACTORY HOURS & WAGES (1b)					
Weekly Hours	Dec.	41.1	40.5	40.9	40.3
Hourly Wage (cents)	Dec.	127.7	126.8	114.8	78.1
Weekly Wage ($)	Dec.	52.51	51.31	46.96	31.79
PRICES—Wholesale (1b2)	Feb. 7	163.8	163.7	141.7	92.2
Retail (cdlb)	Nov.	185.9	184.9	171.5	116.2
COST OF LIVING (1b3)	Dec.	167.0	164.9	153.3	110.2
Food	Dec.	206.9	202.7	185.9	113.1
Clothing	Dec.	191.2	190.2	176.5	113.8
Rent	Dec.	115.4	115.2	108.8	107.8
RETAIL TRADE—$b					
Retail Store Sales (cd)	Dec.	12.51	10.71	10.79	4.72
Durable Goods	Dec.	2.90	2.63	2.33	1.14
Non-Durable Goods	Dec.	9.61	8.08	8.46	3.58
Dep't Store Sales (mrb)	Dec.	1.36	0.98	1.21	0.40
Retail Sales Credit, End Mo. (rb2)	Dec.	6.44	5.85	4.61	5.46
MANUFACTURERS'					
New Orders (cd2)—Total	Nov.	269	255	233	181
Durable Goods	Nov.	307	291	254	221
Non-Durable Goods	Nov.	246	233	221	157
Shipments (cd2)—Total	Nov.	328	318	267	184
Durable Goods	Nov.	351	339	278	223
Non-Durable Goods	Nov.	312	304	260	158
BUSINESS INVENTORIES, End Mo.					
Total—$b (cd)	Nov.	42.1	41.0	35.2	26.7
Manufacturers'	Nov.	23.7	23.5	19.9	15.2
Wholesalers'	Nov.	7.4	6.9	5.7	4.3
Retailers'	Nov.	11.0	10.6	9.6	7.2
Dept. Store Stocks (mrb)	Nov.	2.3	2.2	2.2	1.4

PRESENT POSITION AND OUTLOOK

(Continued from page 605)

Financial Pressure. In fact there is already talk of a change in debt retirement plans that would spread repayment of $4.5 billion Federal-Reserve-held debt over six months rather than three — as if a mere matter of three months would make much difference in the ultimate consequences!

* * *

A rational analysis of the present situation and outlook is badly handicapped by the Administration's thinly veiled determination to seize control of our economy. Prior to the commodity price slump, demands for greater authority were presented to Congress openly. Now, fearing that Congress may no longer be impressed with the need for such grants of power, Administration supporters in Washington are resorting to the subterfuge of **Talking Prices Up.**

* * *

President Truman warns that the chief danger is still inflation, not deflation. Secretary Anderson hints that perhaps the Government might raise its grain export goals. Other expert, but anonymous, bureaucrats in the Agriculture Department declare that the decline is ended and that prices will rise again, probably higher than before. Perhaps farmers and processors will not be fooled again into holding back produce too long. But if they should, the country would be confronted with another tailor-made crisis which only **Dr. Bureaucrat** could cure.

* * *

On the other hand, if prices, after a period of backing and filling, should resume the decline, it is not beyond the realm of possibility that the Administration, which thus far has been 100% wrong in its business forecasts, may then ask Congress for more authority to check **Deflation,** rather than **Inflation.**

* * *

At present writing commodities have a long way to drop before sounding a **Depression Signal.** Sometime there will be another major depression. It is one of the inevitable aftermaths of a destructive war. As World War II was the worst in modern history, so will the next depression be the severest, with or without bureaucratic guidance. Bureaucratic meddling would prolong the depression; but could not avert it.

* * *

But commodity prices are only one of several **Business Barometers to Watch.** Of greater importance are excess exports and the demand for capital goods. According to reports up to the time of writing, there has been no let-down in the demand for **Steel,** the basic common denominator of capital goods. There have been no cancellations of orders and new orders continue to pour in at an undiminished rate.

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
BUSINESS ACTIVITY—I—pc	Feb. 7	166.4	168.6	160.8	141.8
(M. W. S.)—I—np	Feb. 7	187.0	189.4	175.9	146.5
INDUSTRIAL PROD.—1—np (rb)	Dec.	191	192	182	174
Mining	Dec.	155	155	137	133
Durable Goods, Mfr.	Dec.	228	224	211	141
Non-Durable Goods, Mfr.	Dec.	174	178	174	141
CARLOADINGS—t—Total	Feb. 7	747	727	767	833
Manufactures & Miscellaneous	Feb. 7	351	341	345	379
Mdse. L. C. L.	Feb. 7	106	103	113	156
Grain	Feb. 7	39	41	47	43
ELEC. POWER Output (Kw.H.)m	Feb. 7	5,412	5,429	4,777	3,267
SOFT COAL, Prod. (st) m	Feb. 7	11.5	11.2	12.3	10.8
Cumulative from Jan. 1	Feb. 7	66.3	54.8	73.1	446
Stocks, End Mo.	Dec.	52.2	50.5	47.2	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	Feb. 7	5.3	5.3	4.8	4.1
Gasoline Stocks	Feb. 7	105	103	100	86
Fuel Oil Stocks	Feb. 7	50	51	47	94
Heating Oil Stocks	Feb. 7	39	41	45	55
LUMBER, Prod. (bd. ft.) m	Feb. 7	488	494	430	632
Stocks, End Mo. (bd. ft.) b	Dec.	5.5	5.4	4.6	12.6
STEEL INGOT PROD. (st.) m	Jan.	7.46	7.36	7.21	4.96
Cumulative from Jan. 1	Jan.	7.46	84.6	7.21	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	Feb. 12	134	124	55	94
Cumulative from Jan. 1	Feb. 12	699	566	598	5,692
MISCELLANEOUS					
Paperboard, New Orleans (st) t	Feb. 7	223	197	202	165
Hosiery Production (pairs)m	Dec.	151	154	145	150
Footwear Production (pairs)m	Nov.	37.9	46.8	40.8	34.8
Whiskey Production (tax gals.)m	Dec.	0.7	0.1	19.8	11.8
Do., Domestic Sales	Dec.	5.5	7.8	5.8	8.1
Do., Stocks, End Month	Dec.	456	463	409	506

PRESENT POSITION AND OUTLOOK

Excess Exports, on the other hand continue to shrink gradually. This can not go on indefinitely without leading to a certain amount of contraction in production, with consequent laying off of employees. In fact each month that passes brings reports of additions to the list of industries in which supply has at last caught up with demand.

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Among recent instances of lines in which a **Buyers' Market** has returned we find Fractional Horsepower Motors, a slackening in demand for which is regarded as a sign of demand-supply balance in a good many other fields.

* * *

A Senate Transportation subcommittee predicts that **Freight Car** production this year will be at a monthly rate exceeding 10,000; but warns that this rate will have to be maintained for two or three years to relieve the existing shortage.

* * *

The Office of Defense Transportation believes that the **Box Car Shortage,** for which the steel shortage is mainly responsible, will continue "indefinitely." "Even if 10,000 cars a month are built this year until October, we would only have about as many cars as we had in 1946."

The A. A. R. reports that the **Railroads** had a total net income of $480 million last year. This compared with only $293 million in 1946, an "abnormally low earning year."

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept. (Avge. Month 1939—100). cd3—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cd1b—Commerce Dept. (1935-9—100), using Labor Bureau and other Data. e—Estimated. en—Engineering News-Record. I—Seasonally adjusted Index (1935-9—100). lb—Labor Bureau. lb2—Labor Bureau (1926—100). lb3—Labor Bureau (1935-9—100). lb4—Labor Bureau, (1939—100). lt—Long Tons. m—Millions. mpt—At Mills, Publishers, and in Transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without Compensation for Population growth. pc—Per Capita Basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, Instalment and Charge Accounts. st—Short Tons. t—Thousands.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

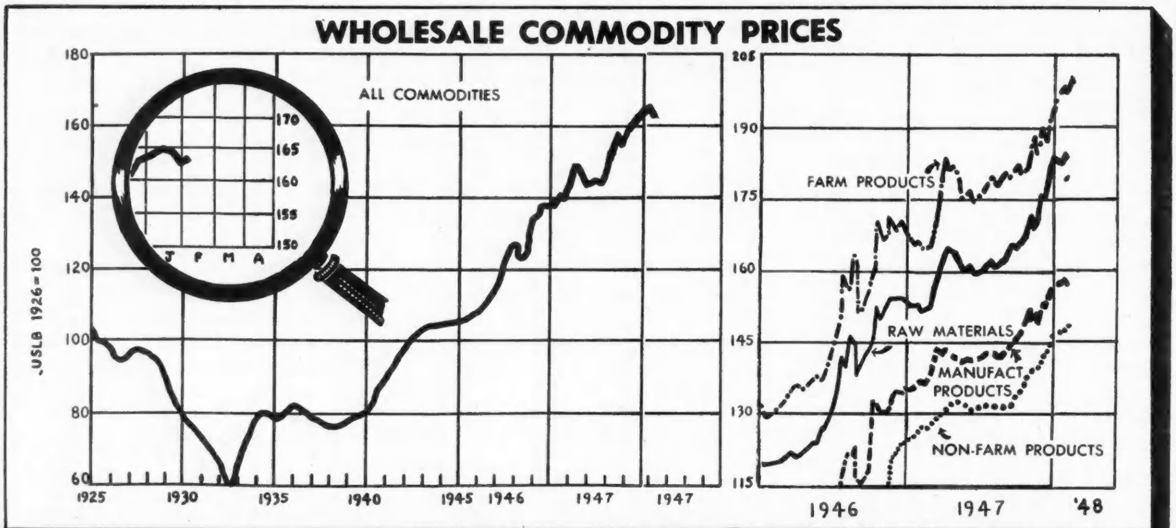
No. of Issues (1925 Close—100)	1948 Indexes High	Low	Feb. 7	Feb. 14
312 COMBINED AVERAGE	133.1	119.0	123.7	119.0
4 Agricultural Implements	212.0	179.4	193.0	179.4
11 Aircraft (1927 Cl.—100)	155.7	137.3	144.0	137.3
6 Air Lines (1934 Cl.—100)	478.9	430.3	454.0	451.4
6 Amusement	90.3	79.7	83.1	79.7c
13 Automobile Accessories	201.5	175.3	181.0	175.3
12 Automobiles	38.4	32.8	34.4	32.8
3 Baking (1926 Cl.—100)	18.9	16.4	17.6	16.4
3 Business Machines	267.2	231.4	238.9	231.4
2 Bus Lines (1926 Cl.—100)	149.3	136.1	139.5	136.1
5 Chemicals	244.1	222.9	229.7	222.9b
2 Coal Mining	17.8	14.7	15.7	15.7
4 Communication	46.7	42.6	44.6	42.6
14 Construction	64.2	56.9	58.3	56.9
7 Containers	323.3	288.7	296.5	288.7c
9 Copper & Brass	101.6	92.0	96.1	92.0
2 Dairy Products	56.8	52.7	53.8	52.7c
5 Department Stores	61.7	53.9	57.5	53.9c
6 Drugs & Toilet Articles	172.4	149.8	155.7	149.8
2 Finance Companies	216.7	199.4	210.2	209.8
7 Food Brands	172.5	152.8	157.4	152.8c
2 Food Stores	67.5	59.7	64.5	59.7c
3 Furniture	80.8	71.2	73.5	71.2
3 Gold Mining	734.5	694.2	708.8	719.2

(Nov. 14, 1936, Cl.—100)	High	Low	Feb. 7	Feb. 14
100 HIGH PRICED STOCKS	84.05	75.27	77.55	75.27
100 LOW PRICED STOCKS	152.37	135.46	141.85	135.46
6 Investment Trusts	58.6	50.6	52.7	50.6
3 Liquor (1927 Cl.—100)	747.8	663.3	676.8	663.3
9 Machinery	157.1	136.8	142.2	136.8
3 Mail Order	100.8	91.3	94.3	91.3
3 Meat Packing	108.5	95.6	99.7	95.6
13 Metals, non-Ferrous	160.1	141.0	145.1	141.0
4 Paper	41.3	34.1	36.4	34.1
24 Petroleum	232.2	199.2	209.0	199.2
19 Public Utilities	106.7	98.0	100.2	98.0c
5 Radio (1927 Cl.—100)	20.7	18.0	19.0	18.0
8 Railroad Equipment	61.9	55.5	57.0	55.5d
24 Railroads	23.3	20.5	21.6	20.5
3 Realty	23.9	22.6	23.6	22.6
2 Shipbuilding	117.0	102.8	113.0	102.8
3 Soft Drinks	516.5	459.7	492.7	459.7b
14 Steel & Iron	110.9	96.2	100.6	96.2
3 Sugar	50.5	44.8	46.7	44.8d
2 Sulphur	240.0	210.7	224.9	210.7c
5 Textiles	140.0	120.5	126.7	120.5
3 Tires & Rubber	31.3	28.3	28.4	28.3d
6 Tobacco	69.3	64.3	65.8	64.3d
2 Variety Stores	319.5	286.9	300.3	286.9c
17 Unclassified (1947 Cl.—100)	100.8	92.0	94.6	92.0

New LOW since: b—1946; c—1945; d—1944.

Trend of Commodities

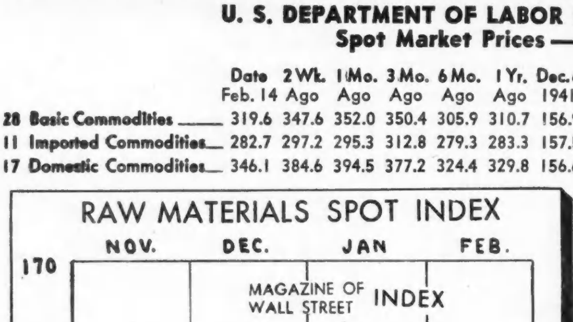
Wheat and corn during the week ended Feb. 7 staged the most violent decline in the 100-year history of the Chicago Board of Trade. Farmers and processors, oversold by the Government on inflation potentials, had been hoarding produce in anticipation of luscious market prices to be realized before the new harvests. Then came disillusionment through announcements that exorbitant prices were meeting consumer resistance and that world crop prospects had brightened materially since official estimates were published a few months earlier. The ensuing competitive scramble to unload forced a 17% decline in the Labor Bureau's daily index of spot prices (tabulated below) for 7 leading domestic agricultural prices. It is worth noting, however, that as of Feb. 14, the average was still 12% higher than a year ago, and 253% above pre-war 1939. Thus in proper perspective the decline to date has amounted to little more than a relatively minor corrective reaction. It is too early yet to say whether or not this may signal an important turning point in the phenomenal war-time and post-war era of agricultural prosperity; but it is a fairly reasonable assumption that the 1947 peak in farm products prices will not be seriously challenged again until the next major war. As for the near future, a period of backing and filling around current levels would be the normal expectation. Any extension of the reaction following this could not become catastrophic, for it would ultimately encounter Government support. As computed from parity prices obtaining on Jan. 15, the Government support price for cash wheat at Chicago would be $2.27 and for corn, $1.57. Closing prices on Feb. 14 were $2.66 for wheat and $2.52¼ for corn.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices — August, 1939, equals 100

	Date Feb. 14	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	319.6	347.6	352.0	350.4	305.9	310.7	156.9
11 Imported Commodities	282.7	297.2	295.3	312.8	279.3	283.3	157.5
17 Domestic Commodities	346.1	384.6	394.5	377.2	324.4	329.8	156.6

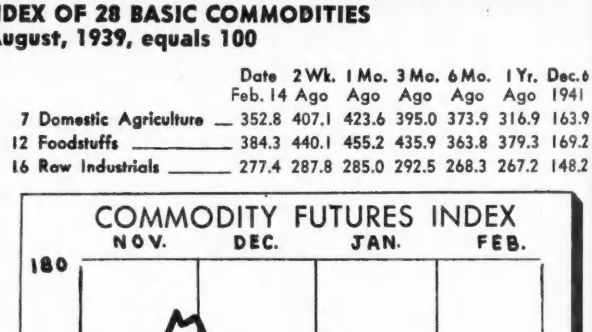
	Date Feb. 14	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
7 Domestic Agriculture	352.8	407.1	423.6	395.0	373.9	316.9	163.9
12 Foodstuffs	384.3	440.1	455.2	435.9	363.8	379.3	169.2
16 Raw Industrials	277.4	287.8	285.0	292.5	268.3	267.2	148.2



14 Raw Materials, 1923-5 Average equals 100

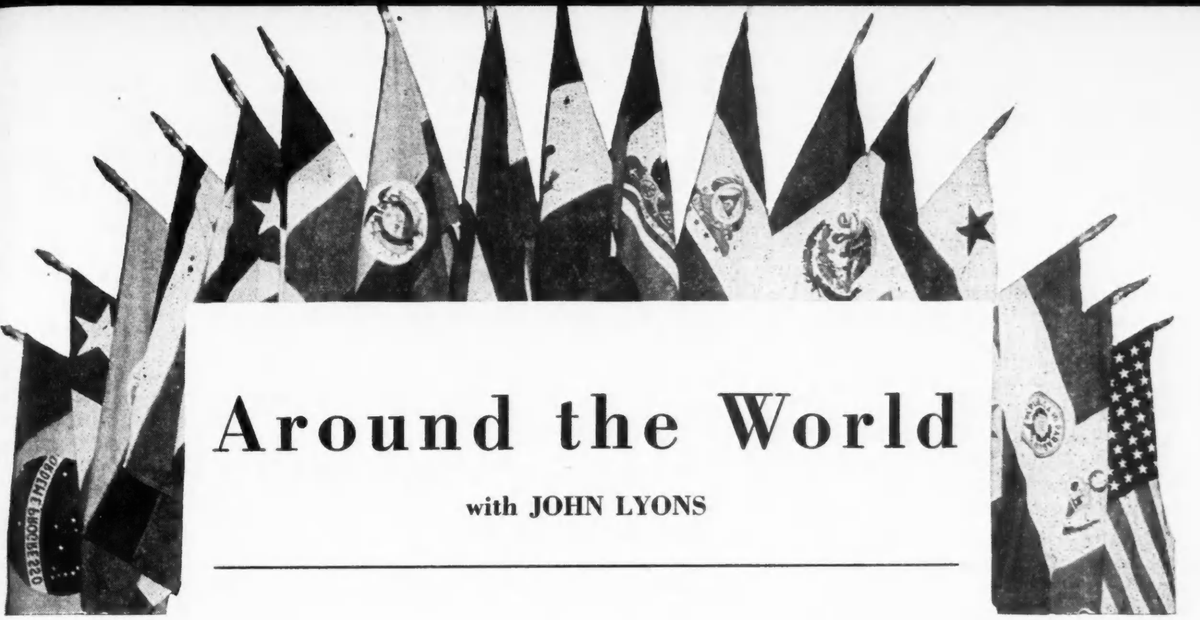
Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1948	1947	1945	1943	1941	1939	1938	1937
High	163.6	164.0	95.8	92.9	85.7	78.3	65.8	93.8
Low	150.6	126.4	93.6	89.3	74.3	61.6	57.5	64.7



Average 1924-26 equals 100

	1948	1947	1945	1943	1941	1939	1938	1937
High	168.63	175.65	106.41	96.57	84.60	64.67	54.95	82.44
Low	146.83	117.14	93.90	88.45	55.45	46.59	45.03	52.03



Around the World

with JOHN LYONS

American exports to the sixteen nations participating in the European Recovery Program are now bound to be less this year than in 1947, considering the likelihood that the congressional appropriation for the ERP will be around \$5 billion rather than the \$6.8 billion sought by the Administration. Still actual aid, in terms of goods and foodstuffs, need not fully reflect the decline in funds that will eventually be made available; lower U. S. prices may take up a good deal of the slack.

According to the Department of Commerce, U. S. exports to the ERP countries last year amounted to \$4.8 billion; during the present calendar year, they may run around \$4.5 billion, though shipments are not expected to flow evenly during each quarter of the year. Since the ERP program is not likely to be enacted before the end of the first quarter, current exports will run considerably below those of last year's, on a comparable basis.

Regardless of the size of the ultimate appropriation, Great Britain will get the lion's share of the ERP funds. The United Kingdom during the first 15 months of ERP operation, will require total imports of \$4.3 billion, of which it will be able to finance \$2.13 billion through its own dollar earnings from exports and services. Another \$418 million will be obtained from such sources as the International Bank, private investments, etc. The balance, \$1.78 billion or about 25% of the requested \$6.8 billion ERP appropriation, would come from the latter. The amount now is likely to be less, on basis of the probable lower appropriation. To the extent that the cut is not offset by U. S. price declines, Britain may have to look elsewhere to make up for the difference.

France, tentatively, has been set down as the second largest taker, with some \$1.43 billion to be loaned or granted to make up for her unfavorable trade balance. She, too, will have to be satisfied with somewhat less. Germany would be third with a total of over \$1 billion for the Bizone, the French Zone and the Saar. Italy, requiring \$869 million, will be fourth. However, all these tentative allotments are now likely to be cut.

Incisive changes in the character of exports of the principal ERP countries are anticipated in the next few years. For obvious reasons they are intent on channeling the larger part of their exports to "hard currency" countries. The shifts will not only be in direction but also in the type of goods. Above all it will mean larger exports to the Western Hemisphere, notably the United States, and smaller shipments to "soft currency" countries, with the latter emphasizing necessity rather than convenience.

British Economic Problems

The British economy is now thoroughly geared for the export drive but the Labor Government is again heading for difficulties. Gold and dollar reserves are running out fast, and Prime Minister Attlee's proposal of longer working hours has trade unions up in arms. Nor do they like his idea of freezing wages, though the reason—to hold down export prices is—potent. It is one of the repercussions of French devaluation, but probably also reflecting the expectation of lower world market prices in the wake of price corrections in the U. S. A. And England sorely needs to remain competitive. Inability to export for price reasons would be a catastrophy and force devaluation of the sterling much sooner than otherwise likely. Devaluation now is not looked upon with favor; it would raise the cost of vital imports too much, again complicating the export outlook.

Despite last winter's fuel crisis, 1947 exports reached \$4.6 billion which is about \$1 billion or 30% more than in 1946. Stafford Cripps, Britain's economic czar, is setting 1948 export targets high, high enough in fact to balance imports in 1949. Encouraging factor is that coal production this winter is large enough to maintain a high level of output in all basic industries, with some to spare for export to the hard pressed Continent. Tentative export goals call for a 50% boost in shipments to the Western Hemisphere. It's an ambitious goal, since costs, raw materials and particularly delivery dates (the latter a crucial factor) remain difficult problems that must be overcome if the objective is to be reached.

An interesting sidelight: Britain's trade agreement with Russia and (*Continued on page* 616)

How Far Can the Building Boom Go?

(*Continued from page* 596)

surprise. In this special field we find long deferred repair activities supplementing demand for finishing work in new construction; between the two, potentials for a further uptrend in sales and profits during 1948 are fairly well defined. Raw materials such as linseed oil and certain kinds of resins are still in tight supply, but this situation may improve during the current year.

During recent years, research has made strides in improving the quality of paints, partly through the use of synthetic components, while inexpensive water-based emulsions have also gained much in popularity. Some of the larger concerns have extensively diversified their output and expanded volume through utilization of vegetable oils, not only in their regular operations but in other fields as well. A decided upturn in net earnings was characteristic of most of the paint manufacturers in 1947, and there is little indication that the improvement has run its course.

In like manner, the producers of plate and window glass are viewing the current year with warrantable optimism. Plate glass output last year is estimated around 250 million square feet, partly due to the rise in construction activities and in part because of rising demand from the automotive industry. The demand for flat glass in new buildings shows no indication of slackening during 1948, and as production has nearly come in balance with demand, prompt deliveries promise to become rather general. Raw materials, except for a few chemicals, are no problem at al.

The most recent innovation in window glass is a double pane unit with a space between the flats to effect insulation. The huge new building of the John Hancock Life Insurance Company in Boston is to be entirely equipped with these new panes, and others are likely to follow suit. Prices for window glass will probably hold at current satisfactory levels, up 18% compared with prewar, and net earnings of the lead-producers should continue favorable.

Operations close to capacity seem indicated for producers of building hardware, plumbing and heating, provided the hard pressed steel industry is able to supply the requisite materials. Chances are that any federally enforced allocations that may enter the picture in coming months will not seriously involve manufacturers in this field. Considering the political aspects of the housing shortage in an election year, it is more probable that this industry will be favored rather than hampered in its all out efforts to provide more homes. Higher steel prices and wages naturally will continue to press against earnings, but this factor may largely be offset by increased plant efficiency resulting from improvement programs now largely finished. Profit margins of manufacturers in this special group are seldom wide because of substantial competition, but since current large volume is fairly certain to continue, the spreading of overhead should produce satisfactory profits.

Some Adverse Factors

So many encouraging elements point to sustained prosperity for the suppliers of essential building items, that confidence in the stronger concerns is well warranted. There are, however, a few factors that invite caution against undue optimism. One of these is the limited number of skilled workmen in some key unions and the pressure exerted by their leaders for shorter hours and less working speed. It is said that reluctance against expanding the ranks of apprentices has already increased the average age of carpenters, painters, etc., now employed by about 7 years since the beginning of the last war. As some three years of training are required for apprentices, it can be envisaged that any substantial hopeful expansion in building activities may run full tilt into a serious labor shortage that no monetary considerations could overcome. Some of the mass builders of homes have overcome this problem by employing non-union labor and have cut construction time by about 40%, but such policies could not be adopted on any wide scale.

Reference to the appended table will disclose considerable divergence in price-earnings ratios and yields among shares of the 26 companies listed in the building group. Uncertainty over how long the construction boom may last and awareness that this industry's cyclical progress is closely tied to the level of general business and national income, attaches a considerable measure of speculative activity to shares in this division.

Under current stock market conditions, though conservative dividend policies in most cases warrant stable distributions during 1948, with hope of improvement here and there, share prices are well below the 1947-48 highs though consistently above the low marks registered. Rather liberal price-earnings ratios and low yields for some of the soundest leaders attest to a high degree of investor confidence in their outlook. With proper selectivity and timing, it seems apparent that shares of other concerns on the list could be picked to yield an attractive return, with fair potentials for eventual appreciation. Based upon factual evidence, the building industry has far from exhausted its promising postwar potentials.

Electrical Industry Under Keener Competition

(*Continued from page* 587)

purchasing power of their occupants generally of record proportions, it is small wonder that demand for electric appliances last year was exceptionally strong. As many of these devices require a small motor, output was hampered by a serious shortage of these units during most of the year. Shifts in equipment of factory machines, also, increased the demand for relatively small motors, for modern designing of machine tools now often calls for the use of several motors where formerly only one was employed. At one time near the middle of 1947, manufacturers of fractional motors were struggling against a backlog of more than 21 million units, and in hopes of assuring a better supply many makers of appliances felt obliged to manufacture their own motors. Early in 1948, though, it became increasingly apparent that the bottleneck was broken, partly due to better supplies of steel and copper, and in part because of slackening in demand.

The fact seems to be that while supplies of certain applances such as refrigerators are still insufficient to meet demand, others like irons, fans, washers and vacuum cleaners are closely in balance with demand. By this it should not be inferred that either the manufacturers of fractional motors or the leading producers of appliances are worried over the outlook for the current year. To the contrary, leading authorities in the industry are predicting an over-all volume gain of about 5% for appliances during 1948 with sales topping $1 billion, and some such as General Electric are even more optimistic over their individual prospects.

As for electric ranges, the National Electrical Manufacturers' Association sees only expanding markets ahead. Sales of these units substantially contributed to the over-all progress of the appliance industry last year. In 1947 a record number of 1.25 million electric ranges were produced, a 92% increase over 1946 and 73% over 1941. Demand for ranges of this class continues so strong that output during 1948 is expected to reach 1.5 million, without creating an over supply.

The outlook for well sustained demand for electric water heaters seems equally encouraging. The NEMA reports that production of these soared to around one million last year, a gain of 82% over 1946 and, more signficantly, 400% over 1941. This latter comparison indicates that water heating by electricity has become highly popular and that a wide horizon for extension now exists. Predictions are that another increase of 20% in production will feature 1948, unless materials shortages prove restrictive.

Situation in Home Freezers

Early in 1947, rumors were persistent that manufacturers of home freezers were piling up inventories that they found difficult to sell. It was said that overproduction in this relatively new field was causing a good many worries. Results for the full year, though, seem to refute these ideas. Production of home freezers under 16 cubic feet for 1947 mounted to 400,000 units, a gain of 167% over 1946, and that they found a ready market is shown by company plans to turn out even more during 1948. Experience with home freezers, though colored with the usual reactions attending the introduction of new devices, apparently has won them permanent favor. In due course, manufacturers may develop some highly interesting business, though competition will be very keen.

Sales of vacuum cleaners last year were greater than in any two year period in the industry's experience. Consumers purchased nearly 4 million of the cleaners last year, and if the level of national income remains near present levels, sales in the current year may closely equal this figure. The more attractively designed newest models tend to hasten the rate of replacements while the increased number of homes swells the number of prospective buyers. Profit margins on vacuum cleaners generally have been wider than on most appliances, probably due to the widespread practice of manufacturers to sell direct to the consumer.

One item among appliances is

now quite clearly in ample supply, namely electric irons. As these require no motors it has been possible to step up their output at a rapid pace. The supply of electric clocks has also become plentiful. Mass production of both of the above items has brought reasonably low prices, along with modern designing. Profit margins are usually rather narrow on such light appliances and as competition becomes increasingly strong, volume will have to be sustained at high levels to establish satisfactory net earnings. This should not be overly difficult for the well entrenched leaders in the field during the current year, though their promotional costs are apt to rise.

Conclusions

Summing up, the producers of heavy electrical equipment are facing a period of several years during which they can sell about everything they can turn out. Manufacturers of lighter appliances should enjoy an exceptionally good first quarter in the current year, though sales of a few specialties may revert to seasonal proportions. Large companies producing both heavy and light appliances should show satisfactory results for the full year, though by midyear the real test of selling ability under genuine competitive conditions must be tackled, and if the apparent downtrend in commodity prices turns out to be no temporary matter, inventory problems and lower prices for finished goods will constitute a challenge.

On balance it seems hardly probable than net earnings of many concerns in this field will rise during 1948. The showings made for 1947 were so satisfactory, though, that even if moderate recessions are reported during the current year, they would still be fairly good. Dividend rates now in effect should be fairly well maintained among the better situated concerns.

Shares in the electric appliance group, as the appended table reveals, appear reasonably priced if weighed in the light of price-earnings ratios and yields. Despite the recent sharp drop in general stock market quotations, only a few of the shares on this list have declined to near their 1947-48 lows. This would seem to indicate that around current prices, existing uncertainties in this industry have been fairly well discounted.

What seems certain is that a buyers' market has already entered the picture in contrast to the glamorous going last year; this will entail some changes in progress and policies for more than one important concern. In other words there should be plenty of business, but the race to capture a sizable share will involve higher selling costs as competition heightens. The leading manufacturers of motors, regardless of hp specifications, have little to worry about because their established reputations and efficient cost controls give them the edge over their competitors in a market where over-all demand should remain high, provided no upset occurs in the economy. The same thing should hold true for strongly entrenched producers of appliances of nearly every description.

In this special field, though, some concerns that have only since VJ Day entered the competitive arena in order to diversify output and to spread overhead may experience tougher sledding. Then, too, break-even points have been raised to an extent that if volume is not sustained, a rather small drop in sales would adversely affect net earnings. Hence while another good year for the electric appliance industry and its suppliers seems in store, some problems are looming up that could alter potentials for the less favorably situated concerns, especially if price competition becomes keener.

Manufacturers of refrigerators, though still experiencing a country-wide excess of demand over supply, are not too confident that this will continue all through 1948. In the big city centers, dealers are reporting that to move less known makes now require hard pushing by their sales force, although those with long established reputations find quick takers. In the rural areas, however, the shortage of refrigerators is rather acute and may remain so for a good many months to come. As half a million additional farms were electrified last year and farmers generally had the highest income on record, the rural markets promise to continue as a lush field for all kinds of electric appliances, with refrigerators strongly in the van.

During 1947, scarcity of sheet steel held output of refrigerators to around 3 million units but in the current year the score may amount to 4 million. As ampler supplies of repair materials have tended to lessen the demand for new units, it begins to look as if by the end of 1948, a total of 8 million refrigerators produced since VJ Day would just about restore demand to normal proportions. When this time arrives, annual volume should remain far above prewar but quite a number of new and strong competitors like International Harvester must be counted on to take their share.

The marked shortage of domestic servants and the high cost of professional laundry work has substantially bolstered the demand for electric washers and ironers, providing the manufacturers of these devices with record breaking sales and profits last year. Prior to the war, Bendix got a running start in this special field and had it pretty much to itself. During hostilities, though would-be competitors had increasingly eyed this interesting market with envy, about all they could do was to lay plans to throw their hats in the ring. As matters now look for 1948, at least a dozen strong concerns will be vying with each other to sell washers and ironers of up-to-date designs, improved principles and efficiency.

Line-up in Washers

In this respect, the new automatic washers now offered by Bendix Home Appliances, Westinghouse, F. L. Jacobs, Apex, Hotpoint (a GE subsidiary) and others carry decided appeal. On the other hand their prices, ranging from $229.50 to $349.50, are far higher than the conventional washers, some of which are priced as low as $99.50. For this reason at least one strong contender in the field, Maytag, has decided to concentrate production on washers of the conventional type. 1947 production of all types by the industry totalled about 3.5 million units and this record should be equalled in 1948, given adequate steel supplies. How acute the competition has already become is shown by fairly prompt deliveries to customers and widespread promotional campaigns offering highly liberal instalment credit terms.

Shares in the electrical appliance group, as the appended table reveals, appear reasonably priced if weighed in the light of price-earnings ratios and yields. Despite the recent sharp drop in general stock market quotations, only a few of the shares on this list have declined to near their 1947-48 lows. This would seem to indicate that around current prices, existing uncertainties in this industry have been fairly well discounted.

Test of Bretton Woods

(*Continued from page* 584)

European investments "until the Marshall Plan has crystallized."

Since the Bank's management, lending almost exclusively the funds supplied by the U. S. Government or the U. S. investors, cannot very well disregard American foreign policies, loans to Eastern European countries seem to be out altogether for some time, if not forever. It is doubtful that the Bank will agree to finance even the re-equipment of Polish coal mines, although Western Europe would benefit therefrom. There remain only one or two Latin American or Near Eastern countries as a possible field for investment.

Moreover, the Bank may find it difficult to raise funds in the American market at a 2¼ per cent rate for intermediate issues and a 3 per cent rate for the longer-term issues. If it has to borrow at a higher interest rate in the future, as it now seems very likely, it will have to increase its present charge of 4¼ per cent on the loans made to the member countries. That the Western European countries, which are now getting assistance under the Marshall Plan, will borrow at a rate higher than 4¼ per cent, is doubtful. Also it is unlikely that the Bank will be asked to lend funds other than dollars—at least not in the near future. All this indicates that the Bank won't play much of a role in the rehabilitation of the world during the rest of this year.

Thus far, only adverse criticisms of the twin Bretton Woods institutions have been presented. But there is an explanation why the two organizations have acted as they have, in some cases with justification.

Probably the basic reason why the Fund and the Bank have failed to measure up to the high hopes that their founders had for them, has been the deterioration of world situation as a consequence of the East-West split. Instead of cooperation, the world has been faced first with Russian obstructionism, then sabotage, and finally open hostility. With the world hovering between peace and war, the people of Europe have lacked confidence in the future as well as the will to rebuild their countries. Important Eastern-Western Europe trade has withered, and there is no hope of filling in the near future the gap created by the collapse of Germany and Japan.

In this country we are just beginning to realize (1) that the chaos and the devastation brought about by the war will necessitate assistance on a scale far larger than that visualized in Bretton Woods, and (2) that the relaxing of controls over currencies and world trade will be a very tedious process.

Other Obstacles

Other developments have also proved obstacles to the smooth functioning of the Bretton Woods organizations. The stock market slump and the rise of interest rates have warped the Bank's plans for selling more bonds. The original plans for borrowing some $8 billion in the American money market have proved to be highly unrealistic. With the big insurance companies telling the Bank that they may not be interested in buying more of its bonds if the total outstanding reaches $3 billion, the practical limit seems to be below that amount.

Moreover, the market for the Bank's debentures is still being restricted by state and federal laws. In many states, including Massachuestts, insurance companies and savings banks are still barred from investing in World Bank bonds. The law limiting the lending of national banks to not more than 10 per cent of their capital and surplus, also restricts the market for the bonds. The Bank marketed last July $250 million of debentures, apparently with great success. But the price, which was 103 at that time, declined in January to as low as 94.

While the Bank's operations are being interfered with by the rise of interest rates, the Fund's operations are apparently being influenced by political con-

siderations. It is quite clear, for example, that in the matter of the French franc devaluation, the Fund was caught between the desire of our State Department and the Treasury to have freely fluctuating currencies in Europe, on one hand, and on the other hand the fear of the British authorities that "the area of disturbance" (meaning free currencies) would eventually force them to devalue the pound sterling. The Fund's attitude was a compromise—as were all of its other decisions.

The Fund's most important decision—to accept the ruling exchange rates and to postpone action on overvalued currencies—may be defended (1) by the apprehension on the part of the Fund's directors that some member countries might be alienated by a bold action, (2) the desire to keep inflationary pressures down, and (3) by the fully justified belief that currency devaluation would not eliminate a deficit in international payments as long as there were not enough goods to be exported.

In one way, the Fund has "disappointed" its early critics. It has not been "plundered" by its poor Latin American and Eastern European members. In insisting upon continuous checking of borrowers, the Fund's policies have been sound. The Fund is apparently also constantly pressing its members to adopt sounder fiscal policies.

Time for Review

The time has come for an impartial review of the operations and the functions of the twin Bretton Woods institutions. Two things have happened: The Fund has undoubtedly lost some prestige as a super-national arbiter in international financial relations. The Bank has temporarily retired as a factor in the world's rehabilitation. Moreover, the two institutions are "international" insofar as the "Western World" is concerned only.

Many people who have been opposed to the Fund and the Bank right from the very start, argue that there is not much sense in maintaining two expensive institutions that have been lending largely American money anyhow.

They point out that the Treasury rather than the Fund extended "stabilization" loans to Brazil and Mexico. They also point out that the Export-Import Bank, which may have to step-up lending because of the World Bank's inactivity, could easily perform the functions of the latter if Congress approved.

The supporters of the Bank and the Fund are likely to dismiss the whole matter. They point out that the Fund's hands are tied during the five transitional postwar years, and that the real test of the two organizations will come when more normal conditions are restored and international trade is freed of its fetters.

We are on the sidelines. We feel that a reorganization of the Fund and the revision of some of its involved rules would help to create good will and win a wider support of American business. Although they may be imperfect, the Bretton Woods institutions are an experiment in international cooperation in a new direction. We have never expected that their path would be smooth, and we feel that nothing would be gained by giving up at this point.

Another Good Year for Farm Equipments?

(*Continued from page* 591)

increase of 10% over the previous year and 287% over 1940. On top of this, an estimated $5.4 billion in savings bonds were owned by farmers and farm mortgages have been steadily reduced.

Such affluence resulted in a sharp decline in the proportion of installment sales financed by the manufacturers, leaving them with ample working funds, a goodly share of which has been utilized for substantial expansion and improvements. Last year's sales gains, combined with an average increase of selling prices of 13% over the previous year, resulted in substantial earnings improvement—despite rising costs—of all companies. Per share earnings of some of them more than doubled, as shown in the accompanying tabulation. Better labor relations and smoother operating conditions due to a freer flow of raw materials markedly contributed to this showing, which should at least be matched, but probably bettered—perhaps greatly so—in the current year.

Altogether, sales of agricultural machinery for 1948 are expected to reach a minimum of $1.8 billion, which would represent an increase of 20% over last year. With ample purchasing power in their hands and with great need and desire for maximum output, the farmers can be expected to accelerate mechanization. So great is the demand for implements that some tractors and combines are commanding very substantial premiums over list prices.

Production schedules of manufacturing companies are limited only by availability of steel. Development of implements for the smaller farms provides a wide potential market; while the requirements of the Marshall Plan—where farm equipment is high up on the list—will give a further boost to output. All these factors, combined with the flexibility with which selling prices can be adjusted to offset any further increases in costs of labor and material, indicate new peaks in earnings for the current fiscal year.

It is a prospect that imparts farm equipment shares a good measure of appeal, and that has found reflection in the past in better than average market action. As a group, last year, they registered a gain of some 22% compared with a moderate decline for the market as a whole. Some shares, until the recent market downturn, were selling persistently close to last year's highs, and others only moderately below these peaks. Even in weak markets, the stocks of the stronger companies have met relatively less pressure and shown better resistance. Indicated 1948 earnings gains may readiy lead to more liberal dividends in some cases.

The Outlook for Office Equipments

(*Continued from page* 593)

IBM has recently introduced a remote control keyboard to be used in conjunction with its electric typewriter, thereby providing a practical, effortless means of typing by the bedridden and physically handicapped. Another new development is an electric punched hole verifier, which adds considerable speed and ease of operation in verifying the data punched into IBM cards. Burroughs Adding Machine is likewise engaged in an extensive improvement and expansion program, believed to be the largest in its his-

tory. Among its new products is a machine developed for the use of bank tellers, which is designed to shorten the wait of customers at bank tellers' windows by eliminating the pen and ink account pass book.

The heavy backlogs of orders have prevented the development and introduction of as many new devices as will be the case when more normal conditions prevail. Major companies are studying new and better methods of distribution, and also concentrating on quality improvements as a further aid to future sales.

Due to the cyclical factor, office equipment shares normally fluctuate somewhat wider than the general market and they have conformed to this pattern in recent market swings. At present, price-earnings ratios are about average, with the exception of the high-grade International Business Machine. As the accompanying table shows, most equities are selling currently around their 1947-48 lows. Since indicated continued large profits for most companies point to well-maintained dividends, they appear reasonably priced.

Answers To Inquiries

(*Continued from page* 602)

tors by the home movie maker. Nearly 50% of the company's 1947 sales went to the amateur field. The company in 1947 introduced a new 8 mm magazine loading camera, new 8mm projector and a new 16mm camera for the advanced amateur. Company also produced a 16 mm sound projector for use in schools, churches and industry. The company's production of professional 35mm motion picture equipment was only 10% of the 1947 sales total. The company anticipates continuance of the heavy demand for photographic products and is continuing its long range expansion program of adding to its productive plants and facilities.

What Year-End Statements Reveal for 1948

(*Continued from page* 577)

average of around $3 million for 25 years past.

Expenditure since VJ Day of approximately $17.5 million for modernization, plus nearly $8 million more planned, should radically stabilize operations from now on. After payment of dividends to preferred and common stockholders, West Virginia Pulp retained slightly more than 56% of its 1947 earnings, or $6.2 millions, in the business. As of December 31, 1947, the ratio of current assets to current liabilities was 8.4, including Government securities segregated for plant improvement it was 10.9 to 1. A moderate rise of about 10% in inventory values attests to a rapid turnover, and 90% of the amount carried at the year end represented raw materials or unfinished products.

The preliminary earnings statement of United States Steel Corporation for 1947 showed shipments and sales of record peacetime proportions, and net earnings equal to $11.66 per share, a peak figure since 1929. Consolidated net profits amounted to $126.7 million, after allowance for a reserve of $91 million for federal taxes upon income. This toll of taxes upon income compares with $32 million in 1946 and a peak of $153 million in 1942 when excess profits taxes were in force.

Net income as reported was lowered by about $6 million through the substitution of LIFO methods of valuing inventories compared with former accounting practices. Of the reserve established during the war to cover contingent higher costs, $2.5 million was used in last year's third quarter to cover replacements of inventories at advanced cost levels. Irving Olds, chairman of Big Steel, is optimistic over a continuance of strong demand for steel, but cautions that his company's operating rate will hinge upon labor peace, scrap supplies and international developments.

Realistic Study of the Race Between Prices and Wages

(*Continued from page* 579)

easily lead to strikes. It is a possibility that may be not at all far-fetched, particularly in industries where pipelines and warehouses are well filled with finished goods. They could afford to weather a strike. Labor could far less afford it; workers are likely to hesitate to walk out, especially if the prospect of a business setback points to rising unemployment.

It is a fairly safe prediction that now that the cost of living has declined and may decline further, unions will almost certainly reject any two-way cost of living clause which might result in substantial wage reductions if prices continue to go down. Yet that would be a realistic approach, and one that would go far towards a prompt stabilization of the wage-price structure in the prospective period of readjustment. (*Continued on page* 620)

The Problem of Financing Further Business Expansion

(*Continued from page* 574)

To meet this situation it would be well to re-establish the fact that saving is a virtue and not a vice, that the accumulation of savings and their investment in productive enterprise creates employment the same as spending for personal consumption. But even more important is the revision of the tax structure with a view to facilitating the flow of venture capital into business enterprise.

Importance of Earnings

If tax policy is detrimental to capital investment, no less a danger to an adequate supply of risk capital is the recent tendency to view business profits generally as exorbitant and demand wider distribution to the workers in form of wage boosts without compensatory price increases. We have shown before the importance of undistributed earnings as a source of business capital. To restrict earnings would at once restrict the ability of business to expand. By the same token, any earnings decline due to recessionary business conditions would likewise force curtailment or abandonment of at least some of current expansion programs. Retained earnings are too important a source of capital, and greater reliance on external capital sources would be impossible of realization in an environment of receding earnings or business activity generally.

An important factor in appraising the demand and supply situation in the investment market is the heavy volume of residential building construction which this year is expected to compete for some $5 billion of available investment funds, more than indicated corporate requirements for new money from this source. This has been due to the easy terms for home building and buying; mortgages are being placed on new and old homes at an unprecedented rate, putting an excessive strain on the supply of mortgage money, quite apart from possible later difficulties for the buyer. A corollary effect is that it tends to weaken the stimulus to saving for home ownership, thereby reducing savings available for other investment. A tightening of mortgage lending as apparently now indicated would therefore be salutary, all the more so as it would not mean any drop in overall capital expenditures.

To sum up: The future trend of corporate earnings as well as of savings by the public and its willingness to invest them will importantly determine whether sufficient funds will be available for further business expansion. Availability of funds will determine the size of expansion programs, and these in turn will have an important bearing on the business cycle.

But there are other factors that cannot be ignored. Unsettled conditions, not uncommon in election years, may deter major producers to embark on ambitious programs of plant expansion. And lack of price stability, if protracted, may act as a deterrent to increased production of goods that are not fortified by substantial demand backlogs. All this will have a bearing on the needs for capital funds.

The latest fall in prices with its deflationary implications is said already to have led to a tentative Government decision to string out the deflationary effect of debt retirement by going slower as originally planned. This may mean more credit money for expansion than otherwise would have been available, though bank borrowing is not the ideal solution in many cases.

Everything considered, there can be no absolute answer to the question: Is money for business expansion running out? There are signs of at least a potential capital pinch but the major problem seems to be not so much an insufficiency of investment funds but a lack of equity capital. Liquid resources of individuals are still huge and national income high. While savings by individuals have declined sharply from inflated wartime levels, they are still large enough to maintain an adequate flow of investment funds, provided there is sufficient incentive.

From the standpoint of long term economic stability, it is not desirable to increase materially the present ratio of borrowed capital to equity capital in the business structure. If the necessary equity capital cannot be provided from within business enterprises, (through reinvested earnings) it must become available from outside sources. This means that a much broader market for equity securities is needed than has prevailed in recent years. Anything that creates such a market—and restoration of "incentive" is probably the principal stimulant—will solve in large measure any question that may exist about the sufficiency of capital to complete the postwar expansion of American business. Facilitating the creation of savings by appropriate revision of the tax structure is hardly less important.

Around the World

(*Continued from page* 609)

trade deals with Russian satellite countries are widely looked upon as evidence of an independent policy towards the U. S. S. R. in the sphere of commercial relations. But emphatically rejected is the conclusion (drawn in some quarters) that such a trend might ultimately extend to higher politics. Fact is that U. S. and Britain are cooperating closer than ever in an effort to consolidate their strategic positions vis-a-vis Russia. Business and politics are not being mixed.

Promise vs. Results for Rail Equipments

(*Continued from page* 589)

from the standpoint of railroad revenues, will probably never regain its former eminence, the railroads may be expected to make greater relative purchases of passenger cars than in former years. Unfilled orders of 2,373 units as of December 31, 1947 assures full production for at least this year for the manufacturers of passenger cars. The potential market is quite extensive, granted the apparent desire of the leading railroads to renovate their stock. The possibility of modest purchases for exports gives a moderate fillip to earnings. Producers of passenger cars have the same general problems that face freight car builders; i. e., heavy overhead, increasing competition, etc. But here, also, volume operations could result in substantial profits.

The locomotive branch of the rail equipment industry is in the midst of a revolution, with vital developments still in the offing. Railroad motive power has come in for considerable research and experimentation. The gas turbine and the powdered-coal steam turbine have risen to challenge the Diesel engine. The coal industry makes the claim that its steam turbine will be more economical to operate than the Diesel. The contest will bear careful watching.

Diesels have made steady progress during the last decade, having been found very useful and economical, both for passenger service and freight hauling. Their superiority over steam locomotives is generally acknowledged. The latter have made considerable progress, such as minimizing track-pounding evils, enlarging capacity for fuel and water, etc. Whether such improvements will arrest the decided swing to Diesels remains to be seen. As of January 1, 1948, unfilled orders for locomotives were as follows: 30 steam and 1192 Diesels, compared with, respectively, 64 and 534 the previous year.

Demand Outlook

Since locomotives are the most expensive type of railroad equipment per unit, purchases of additional or more efficient motive power tend to be postponed as long as possible. Locomotive builders normally experience difficulty in selling new equipment to the railroads solely because existing equipment has become obsolete. While rebuilding and repairing offsets obsolescense to some extent, a point is finally reached when new power must be purchased. War deferred needs, prospects of heavy traffic for several years, and the need for economies to offset higher wage and material costs all combine to exert a powerful inducement on the railroads to step up restoration of their motive power during the next few years. Most important, the railroads at present have greater resources for such purchases than they have had for a good many years. That substantial purchases may be in the offing is indicated by the fact that the railroads have not made any large investments in locomotives since the Twenties.

The locomotive branch is perhaps the most competitive of all in the rail equipment field. Emphasis on Diesels has made for many changes. No longer is the field dominated by three locomotive makers. General Motors currently enjoys an important position in the Diesel-electric field. During the last sixteen years, its Electro - Motive subsidiary has built about two-thirds of the approximately 4,000 diesel units now in service. New-comers, such as Fairbanks, Morse and Lima-Hamilton, have further intensified competition. However, there is a broad market available in view of the fact that over two-thirds of the 35,000 steam locomotives on American railroads today are over 25 years old. In spite of the heavy initial cost, the advantages of modern power units have been conclusively demonstrated. The purchase of about 1,000 locomotives for domestic use would mean a high rate of activity for the leading producers. Foreign exports should be of increasing importance as Europe recovers.

In the field of railroad specialties, various prospects present themselves. Volume normally depends upon general railroad activity, the carriers' repair programs and orders for installations in newly-built rolling stock. Forgings and castings manufacturers derive material benefits from the automotive industry. Competition in some of these lines, such as miscellaneous castings, has been keen. But because of patent protection and cross-licensing agreements, competition in other lines has been relatively light.

The specialty branch is often affected by the decisions of the Association of American Railroads and the ICC regarding recommended or required devices on railroad equipment. The requirement that all freight cars used in interchange service be equipped with AB brakes by 1949 indicates a backlog of millions of dollars for brake manufacturers. Future years will no doubt see the development and required installation of specialty brakes for higher operating speeds, combination empty and load brakes, etc. Since brake shoes and bearings are subject to intensive wear, the high maintenance standards currently prevailing augur well for the manufacturers of such specialties. They are expected to be busy throughout this year and for some time to come.

Producers of track accessories and supplies should also enjoy good business in view of the comparatively neglected conditions of branch lines and areas of light-traffic density. It has been estimated that the war period brought about deficiencies in rail installations of over 1,000,000 tons.

Control Devices

Manufacturers of signaling and train control apparatus should benefit considerably from 1947 ICC order requiring installation of block signals and additional protection on 45,000 miles of high-speed lines. Estimates of the volume of such business vary from $250 to $350 million. Orders already placed have been quite large. Since the law requires that all equipment be installed by the end of 1951, several years of good business are virtually assured. Since competition in this field is orderely, profit margins should be well maintained. Earnings may be further boosted by the prospect of considerable work still to be done in auxiliary electrical and communications lines.

Special car fleet operators are in a favorable position to enjoy the record consumption of petroleum derivatives, perishable foods, etc. Having demonstrated their efficiency, these private car lines are attracting an increasingly greater number of shippers who are abandoning their own fleets of freight cars in favor of contract service. The car leasing field has been relatively stable, despite highway competition. Indications point to a continuation of this stability, with further good earnings in store for the major companies.

By and large, the outlook for rail equipment makers is tied in closely with railroad revenues. The need for equipment is great; the funds at hand are presently ample. Shortages of materials are the main deterrents to all-out production. Higher wages and materials costs may prevent earnings of rail equipment companies from keeping pace with sales. But final results should nevertheless be satisfactory. The recent slight drop in order backlogs will no doubt be made up again in view of the improved outlook for the railroads. Net income for the rails this year is

expected to come within shooting distance of the 1929 level.

Market action of rail equipment stocks follows no uniform pattern. Shares of locomotive and car builders — being the most cyclical — fluctuate over the widest range. Car leasing equities have greater-than-average steadiness and normally sell at a more liberal price-earnings ratio. The good profit record of manufacturers of signaling equipment and air brakes has resulted in their stocks selling at a relatively high ratio to earnings. Dividend disbursements have followed a similar pattern; i. e. spotty for locomotive and car builders; more liberal for the others—with certain exceptions in each case.

Latest performance of rail equipment shares has been about in line with the general market. With many selling close to their 1947-48 lows, they appear reasonably priced in relation to prospective earnings and dividends.

Comparative Study of U. S. Pipe and A. O. Smith

(*Continued from page* 599)

the company's "Smithweld" process and is protected by patents. The main plant of the company is located in Milwaukee, Wisconsin, with large and recently constructed facilities at Kankakee, Illinois.

Though volume of A.O. Smith is running far below the wartime peak of $194.4 million established in 1945, during both 1946 and 1947 it was almost three times higher than the average during the 1938-41 period and is enjoying a well sustained uptrend. For the fiscal year ended July 31, 1947, sales of $91.7 million were reported and during the October quarter they amounted to $32.1 million, or at an annual rate of $128 million.

The significant aspect of these gains is that all divisions of the company contributed to their realization, and that for the most part increased physical output rather than price lifts accounted for them. As the outlook for improved steel supplies brightens, the insatiable demand for automotive essentials and pipe for the petroleum industry bolsters hopes that volume gains during 1948 may become still more impressive. And the company itself describes the expansion in orders pouring in upon the A. O. Smith Electrical Company as "astounding."

A. O. Smith's long established trade position with the automotive industry, and the sustained demand for its products from this source likely to endure for several years to come, indicate that sales in this direction will continue at record peacetime levels, unless steel supplies prove inadequate or labor troubles interrupt operations. Subject to the foregoing qualifications, the same thing applies to the company's output of pressure pipe for the oil and gas industry. Backlog orders of this division are so substantial that no possibility of catching up seems in sight until possibly by 1951. Present plans of the natural gas concerns alone envisage laying over 20,000 miles of new pipe as fast as it can be delivered, not to mention long lines to be installed by the oil industry in the Middle East and here at home. A. O. Smith stands to benefit extensively from this huge demand, not only because of its large capacity but also due to the prospect of a firm price structure. Two of its leading competitors in the field, Jones & Laughlin and National Supply Company have just announced price boosts for pipe of from $6 to $10 per ton, leaving other concerns free to follow suit as perhaps they may do in due course.

Operating margins of A. O. Smith have varied considerably from year to year, sometimes in line with different volume levels and again, as in 1946, because of strikes and reconversion problems. From the appended table it will appear that the company's break-even point in 1938 and 1939 was a volume close to $20 million annual sales, though that helps little to establish it under current conditions, with costs now far above prewar.

During war years, operating margins averaged about 15%—about double the 10 year average, but taxes cut net profit margins to around 4.2% compared with 5.75% during 1940-41. Abnormal operating conditions during 1946 reduced operating and net profit margins to .6% and .7% respectively, but for the 1947 fiscal year they showed as 4.3% and 3.9% respectively. In the final quarter of 1947, net profit margins rose to 4.6% on increased volume, but until more complete data are available, the operating margin for that quarter remains obscure.

If per share net earnings of $3.04 for the December quarter are used as a yardstick for potential current fiscal year earnings, the company may show as much as $12 per share earned, up more than 60% from the $7.19 re-

ported for 1947. During the decade prior to 1940, earnings of this concern were drab, with deficits marking its record in more than one year. During the following eight years, however, operations were very satisfactory, establishing average earnings equal to about $6.70 per share during this period. As matters now look, average results for the 1940-50 decade may show still further improvements, for indications are strong that no slackening in demand is probable from the automobile, oil and natural gas industries during the next years.

Should ultimately declining production of numerous forms of durables in other fields tend to ease the supply of steel, A. O. Smith should be the gainer both as to increased output and possibly as to wider profit margins also. No cut throat competition is in sight for either the manufacturers of welded pipe or automobile frames, thus lending assurance that profit margins will be maintained at a satisfactory level. Indeed, the bulk of frames produced in the country come from the plants of A. O. Smith and of Midland Steel Products.

The working capital as of July 31, 1947 amounted to $21.6 million and the current ratio of 2.5 revealed a sound financial position. Inventories of $35.8 million at that time had more than doubled compared with a year previous but seemed warranted by the pressure of mounting sales. Should additional working capital be needed, the company's strong credit position should make this rather easy. No preferred stock is outstanding and aside from $6 million notes placed last year, no term notes are ahead of the common stock. 500,000 shares of $10 par common comprise the sole capitalization. As dividend distributions have been held to $1 per share annually for the last six years, it has been possible to retain substantial amounts of earnings.

At a recent price of 48, A. O. Smith shares carry little appeal as to current yield, though an indicated price-earnings ratio of around 4 adds speculative attraction to them. At times during both 1945 and 1946, these equities topped 90 in price and their range during 1947-48 was 62¼—high, low—38. The considerable degree of volatility exhibited reflects the cross currents of confidence engendered by the company's excellent current earnings and earnings prospects, and awareness that its status in prewar verged on the marginal.

The latter particularly tends to recall the highly competitive conditions in the auto frame business prevailing in normal times, and the likelihood of their return when the sellers' market in automobiles is a thing of the past. But as against this, demand for pipe should remain vigorous and prolonged, pointing to above average earnings power for the company even when automotive profit margins shrink. For investors inclined to look ahead rather than behind, this should be a constructive element.

Prices and Wages

(*Continued from page* 615)

Any discussion of price trends —which in turn have governed wage trends—would be incomplete without reference to one of the principal causes of price inflation: high food costs. Their phenomenal rise was not alone due to peak consumer income and ful employment plus heavy foreign demand for our foodstuffs, but in large part to the Government's farm policies which have directly promoted high food prices. Sky-high agricultural prices have now begun to fall on their own weight, yet already one hear talks of support measures to prevent further declines. This makes no more sense than supporting farm markets at a time when abnormal demand was pushing prices into the stratosphere, when food costs were severely pinching consumer budgets, when labor as a result clamored for progressive wage boosts which in turn accentuated price inflation all around, when the Government was publicly warning against the dangers of acute inflation to our economy. A reversal of this policy is called for.

Changes in Wages and Prices
Source: Bureau of Labor Statistics
Percentage Increases Between Selected Periods and November, 1947

Period	Average Hourly Earnings	Average Weekly Earnings	Cost of Living
1939—Nov., 1947	100.0	113.8	66.0
Jan., 1941—Nov., 1947	85.4	91.5	63.7
Apr., 1943—Nov., 1947	34.1	20.1	33.0
V-J day—Nov., 1947	23.6	22.3	27.6
Jan., 1946—Nov., 1947	26.1	24.0	27.0
June, 1946—Nov., 1947	16.8	17.8	23.8

Wages and Prices, 1939-1947
Source: Bureau of Labor Statistics

Date	Average Hourly Earnings (Cents)	Average Weekly Earnings (Dollars)	Cost of Living 1935-9=100
1939 Annual Average	63.3	23.86	99.4
Jan., 1941 (Little Steel)	68.3	26.64	100.8
April, 1943 Hold-the-Line)	94.4	42.48	124.1
Aug., 1945 (V-J Day)	102.4	41.72	129.3
Jan., 1946	100.4	41.15	129.9
June, 1946	108.4	43.31	133.3
Jan., 1947	116.1	47.10	153.3
June, 1947	122.6	49.33	157.1
July, 1947	123.0	48.98	158.4
Aug., 1947	123.7	49.19	160.3
Sept., 1947	124.9	50.45	163.8
Oct., 1947	125.7	50.98	163.8
Nov., 1947	126.6	51.02	165.0

Nature has taken a hand. The improved crop outlook, at home and abroad, has toppled agricultural prices from their artificial peaks. If nature is allowed to take its course without interference of unrealistic support policies, we are likely to witness a degree of price adjustment in the food field that will not only arrest but reverse the long sustained uptrend in living costs to an extent that will greatly facilitate an equitable solution of the wage problem.

Market Facing Additional Test

(*Continued from page* 571)
people putting their estates in order.

The longer results of the economic adjustment will be all to the good, but cannot be painless nor can it be completed in a matter of weeks. The stock market is already ahead of it, and no doubt will stay ahead of it. We can see the bear market winding up, in an outstanding buying opportunity, some time in 1948; even conceivably within the first half of 1948. Meanwhile, however, there are surely further downside tests in the offing, and just where the final low in the averages may be is really anybody's guess. All we can say on that is that our tentative thinking is moderate, rather than extreme. Indeed, we are confident that real extremes, either in the market, or economic correction can in all probability be ruled 50% Continue to maintain around 50% reserves. —Monday, February 23

A First Step in Your Program for a

PROFITABLE 1948

T*RY this experiment!* Imagine that all your securities were sold yesterday. Today you have nothing but their cash value.

Then ask yourself, "Should I repurchase my former holdings as offering the *most outstanding* prospects for safety, income, profit—or could all or part of my funds be used more profitably in the coming year? Should I invest my cash now?"

Some investors who test their lists honestly find that they are holding securities for unsound reasons: (1) because they dislike to take losses even in weak issues; (2) because they like to see issues on their list which show a profit, even though the future has been discounted; (3) because they are sentimentally attached to inherited securities, or shares of a company for which they work; (4) because they feel that they might have difficulty in deciding upon a replacement; (5) because they are worried about taxes resulting from security changes; (6) *procrastination.*

Today there is no need to hold unfavorable investments which will be slow to recover or may suffer further decline. Selected issues are available which offer a substantial income, a good degree of security and dynamic growth prospects if your purchases are strategically timed. Many are undervalued as measured by earning power, capital assets and 1948 potentialities.

As a first step toward increasing your profit and income in 1948, we invite you to submit your security holdings for our preliminary analysis—*entirely without obligation*—if they are worth $20,000 or more.

Our survey will point out less attractive holdings and those to keep only temporarily. It will tell you how our personal supervision can assist you to strengthen your diversification, income and the enhancement possibilities of your account. We will evaluate your list and quote an exact annual fee for our service.

Merely send us a list of your securities. Give the size of each commitment and your objectives. All information will be held in strict confidence.

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